NEW ISSUE — FULL BOOK-ENTRY

RATINGS: Moody's: Aaa/VMIG-1
S&P: AAA/A-1+
Fitch: AAA/F1+
(See "RATINGS" herein)

In the opinion of Hawkins Delafield &Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., Sausalito, California, Co-Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Co-Bond Counsel to the City, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS."

$120,000,000
CITY AND COUNTY OF SAN FRANCISCO
GENERAL OBLIGATION BONDS
(LAGUNA HONDA HOSPITAL, 1999)
consisting of

$40,000,000	$40,000,000	$40,000,000
GENERAL OBLIGATION BONDS	GENERAL OBLIGATION BONDS	GENERAL OBLIGATION BONDS
SERIES 2005B	SERIES 2005C	SERIES 2005D
(Variable Rate Demand)	(Variable Rate Demand)	(Variable Rate Demand)
(CUSIP: 7976456 V5)†	(CUSIP: 7976456 W3)†	(CUSIP: 7976456 X1)†

Dated: Date of Delivery **Price: 100%** **Due: June 15, 2030**

Authority for Issuance. The captioned bonds (the "Series B Bonds," the "Series C Bonds," the "Series D Bonds" and, collectively, the "Bonds") are being issued by the City and County of San Francisco (the "City") under (i) Ordinance No. 24-04 adopted by the Board of Supervisors of the City (the "Board") on February 10, 2004, and approved by the Mayor of the City (the "Mayor") on February 19, 2004 (the "Ordinance"), (ii) Resolution No. 66-04 adopted by the Board on February 3, 2004, and approved by the Mayor on February 12, 2004, (iii) the Charter of the City, and (iv) a Master Trust Agreement dated as of May 1, 2005 (the "Trust Agreement"), by and between the City, in its capacity as issuer and as co-trustee, and Deutsche Bank National Trust Company, as co-trustee (the "Trustee Bank"). The City will act as paying agent for the Bonds (the "Paying Agent"). Pursuant to a Supplemental Trust Agreement, the City may reassign all or a portion of its obligations as Paying Agent or assume all or a portion of the obligations of the Trustee Bank. Further, during any period when an event of default has occurred and is continuing under the Trust Agreement, the Trustee Bank will be the sole Paying Agent for the Bonds.

The issuance of general obligation bonds in the maximum principal amount of $299,000,000 was approved under a proposition approved by the voters of the City at an election held on November 2, 1999 ("Proposition A"). The City expects to issue, simultaneously with the issuance of the Bonds, a series of fixed-rate bonds under Proposition A in the original principal amount of $110,000,000 (the "Fixed Rate Bonds").See "FINANCING PLAN – Authority for Issuance."

Purpose. The proceeds of the Bonds, together with the proceeds of the Fixed Rate Bonds and any future bonds issued under Proposition A, will be used for the acquisition, improvement, construction or reconstruction of a new health care, assisted living or other type of continuing care facility or facilities to replace the City's Laguna Honda Hospital. Proceeds of the Bonds will also be used to pay costs of issuing the Bonds. See "FINANCING PLAN – Purpose of Issue."

Weekly Rate. The Bonds will initially bear interest at a weekly rate, subject to a subsequent decision by the City to convert one or more Series of the Bonds to a different interest rate mode. See "THE BONDS."

This Official Statement contains information regarding the Bonds (other than Bonds purchased by the Liquidity Provider) while bearing interest in the Daily Mode or the Weekly Mode. Purchasers of Bonds should not rely on this Official Statement for information relating to the Bonds following a conversion of all or a Series of the Bonds to the Term Mode, to a Fixed Rate or to auction rate securities.

Bond Terms. The Bonds will be issued as fully registered bonds in Authorized Denominations of $100,000 or any integral multiple of $5,000 in excess of $100,000. Interest on the Bonds is payable on the fifteenth (15th) of each month (or, if the fifteenth (15th) day of a month is not a Business Day, then on the next succeeding Business Day), commencing on June 15, 2005. See "THE BONDS." Payments of principal of and interest on all Series of Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Bonds.

Security. The Bonds are secured solely by and payable from *ad valorem* property taxes levied for the Bonds under the Ordinance and disbursed under the Trust Agreement, and from certain other legally available funds. The Board has the power and is obligated to annually levy *ad valorem* property taxes upon all property subject to taxation by the City without limitation of rate or amount (except certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Bonds. See "SECURITY FOR THE BONDS."

Redemption and Tender Before Maturity. The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity, and to mandatory tender prior to maturity. The Bonds are also subject to optional tender prior to maturity. "THE BONDS – Redemption," " – Optional Tender of Bonds by Owner" and "–Mandatory Tender for Purchase."

Book-Entry Only. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive physical certificates representing their interests in the Bonds. See "THE BONDS – Book-Entry Only System."

Bond Insurance. The scheduled payment of principal of and interest on each series of Bonds when due will be guaranteed under a separate financial guaranty insurance policy to be issued concurrently with the delivery of such series of Bonds by MBIA Insurance Corporation (the "Credit Provider," the "Insurer" or "MBIA").

MBIA

Liquidity Provider for the Bonds. JPMorgan Chase Bank, National Association (the "Liquidity Provider"), will provide liquidity for the tender and remarketing of the Bonds under a Standby Bond Purchase Agreement dated as of May 1, 2005, between the City and the Liquidity Provider (the "Liquidity Facility"). The stated expiration date of the Liquidity Facility is the later of May 25, 2012 or the last day of any extension of the Liquidity Facility made in accordance with its terms. See "THE LIQUIDITY PROVIDER AND THE LIQUIDITY FACILITY."

Cover Page. This cover page contains information for quick reference only. It is not a summary of all the provisions of the Bonds. Investors must read the entire official statement to obtain information essential in making an informed investment decision.

Offering. The Bonds are offered when, as and if issued, subject to the approval as to their legality by Hawkins Delafield &Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., Sausalito, California, acting as Co-Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney, for the Underwriters by Jones Hall, A Professional Law Corporation, San Francisco, California, and Lofton & Jennings, San Francisco, California, as co-counsel to the Underwriters, for the Insurer by Kutak Rock LLP, Irvine, California, and for the Liquidity Provider by Sidley Austin Brown & Wood LLP, Los Angeles, California. It is anticipated that the Bonds in definitive form will be available for delivery to Cede & Co., as nominee of The Depository Trust Company, on or about May 26, 2005, in New York, New York.

BANC OF AMERICA SECURITIES LLC	***BEAR, STEARNS & CO. INC.***	***E. J. DE LA ROSA & CO., INC.***
(Series B Bonds)	**(Series C Bonds)**	**(Series D Bonds)**

The date of this Official Statement is: May 18, 2005

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the City or the Underwriters.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the City or the Underwriters to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Underwriters.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Estimates and Projections. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

Further, a wide variety of information, including financial information, concerning the City is available from the City, City publications and City websites. No such information is part of or incorporated into this Official Statement, except as expressly noted herein. Any such information that is inconsistent with the information in this Official Statement should be disregarded.

Involvement of Underwriters. The Underwriters have provided the following statement for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Document Summaries. All summaries of the ordinances, resolutions and documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Bonds have not been registered or qualified under the securities laws of any state.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the City or the other parties described in this Official Statement since the date of this Official Statement.

Overallotment or Stabilizing Transactions. In connection with this offering, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain dealers and dealer banks acting as agent at prices lower than the public offering prices stated on the cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriters.

CITY AND COUNTY OF SAN FRANCISCO

Gavin Newsom, *Mayor*

BOARD OF SUPERVISORS

Aaron Peskin, *District 3*

Michela Alioto-Pier, *District 2*
Tom Ammiano, *District 9*
Chris Daly, *District 6*
Bevan Dufty, *District 8*
Sean Elsbernd, *District 7*
Fiona Ma, *District 4*
Sophie Maxwell, *District 10*
Jake McGoldrick, *District 1*
Ross Mirkarimi, *District 5*
Gerardo Sandoval, *District 11*

CITY AND COUNTY OFFICIALS

José Cisneros, *Treasurer*
Edward M. Harrington, *Controller*
Dennis J. Herrera, *City Attorney*

SPECIAL SERVICES

Hawkins Delafield & Wood LLP
San Francisco, California
and
Leslie M. Lava, Esq.
Sausalito, California
Co-Bond Counsel

Public Financial Management
San Francisco, California
and
Kitahata & Company
San Francisco, California
Co-Financial Advisors

Jones Hall, A Professional Law Corporation
San Francisco, California
and
Lofton & Jennings
San Francisco, California
Underwriters' Co-Counsel

Treasurer of the City and County of San Francisco
Co-Trustee and Paying Agent

Deutsche Bank National Trust Company
San Francisco, California
Co-Trustee, Registrar and Tender Agent

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OFFICIAL STATEMENT

$120,000,000
CITY AND COUNTY OF SAN FRANCISCO
GENERAL OBLIGATION BONDS
(LAGUNA HONDA HOSPITAL, 1999)
consisting of

$40,000,000 GENERAL OBLIGATION BONDS SERIES 2005B (Variable Rate Demand)	$40,000,000 GENERAL OBLIGATION BONDS SERIES 2005C (Variable Rate Demand)	$40,000,000 GENERAL OBLIGATION BONDS SERIES 2005D (Variable Rate Demand)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and attached appendices, is to set forth certain information concerning the sale and delivery by the City and County of San Francisco (the "City") of the bonds captioned above (respectively, the "Series B Bonds," the "Series C Bonds" and the "Series D Bonds" and, collectively, the "Bonds"). *All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings set forth in the Trust Agreement (as defined below). See "APPENDIX D – SUMMARY OF MASTER TRUST AGREEMENT."*

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Weekly Rate. The Bonds will initially bear interest at a Weekly Rate, subject to a subsequent decision by the City to convert any Series of the Bonds to a different interest rate Mode. See "THE BONDS."

This Official Statement contains information regarding the Bonds (other than Bonds purchased by the Liquidity Provider) while bearing interest in the Daily Mode or the Weekly Mode. Purchasers of Bonds should not rely on this Official Statement for information relating to the Bonds following a conversion of all or a Series of Bonds to the Term Mode, to a Fixed Rate or to auction rate securities ("ARS"). Further, no information is provided in this Official Statement regarding Bank Bonds.

General Terms of Bonds. The Bonds will be issued as fully registered Bonds in Authorized Denominations of $100,000 or any integral multiple of $5,000 in excess of $100,000. Interest on the Bonds is payable on the fifteenth (15th) day of each month (or, if the fifteenth (15th) day of a month is not a Business Day, then on the next succeeding Business Day), commencing June 15, 2005. Interest on the Bonds will be determined as set forth in the Trust Agreement. See "THE BONDS."

***Redemption and Tender for Purchase*.** The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity, and to mandatory tender prior to maturity. The Bonds are also subject to optional tender prior to maturity. See "THE BONDS – Redemption," "-Optional Tender of Bonds by Owner" and "-Mandatory Tender for Purchase."

Authority for Issuance. The Bonds are being issued by the City under Ordinance No. 24-04, adopted by the Board of Supervisors of the City (the "Board") on February 10, 2004, and approved by the Mayor of the City (the "Mayor") on February 19, 2004, Resolution No. 66-04 adopted by the Board on February 3, 2004, and approved by the Mayor on February 12, 2004, the Charter of the City, and a Master Trust Agreement dated as of May 1, 2005 (the "Trust Agreement"), by and between the City, in its capacity as issuer and as co-trustee, and Deutsche Bank National Trust Company, as co-trustee (the "Trustee Bank").

The City and the Trustee Bank are appointed as "Co-Trustee" under the Trust Agreement, under which the City will initially act as paying agent (the "Paying Agent") for the Bonds. Pursuant to a Supplemental Trust Agreement, the City may reassign all or a portion of its obligations as Paying Agent or assume all or a portion of the obligations of the Trustee Bank. Further, during any period when an event of default has occurred and is continuing under the Trust Agreement, when the Trustee Bank will be the sole Paying Agent for the Bonds.

The issuance of general obligation bonds in the maximum principal amount of $299,000,000 was approved under a proposition ("Proposition A") approved by at least two-thirds of the voters of the City at an election held on November 2, 1999. Simultaneously with the issuance of the Bonds, the City expects to issue an additional series of fixed-rate bonds under Proposition A in an original principal amount of $110,000,000 (the "Fixed Rate Bonds"). See "FINANCING PLAN – Authority for Issuance."

Security for the Bonds. The Bonds are secured solely by and payable from *ad valorem* property taxes levied for the Bonds under the Ordinance and disbursed under the Trust Agreement, and from certain other legally available funds. The Board is obligated to levy *ad valorem* property taxes upon all property within the City subject to taxation, without limitation of rate or amount (except certain personal property which is taxable at limited rates). See "SECURITY FOR THE BONDS."

Financial Guaranty Insurance. Concurrently with issuance of the Bonds, MBIA Insurance Corporation (the "Credit Provider," the "Insurer" or "MBIA") will issue a separate Financial Guaranty Insurance Policy (each, a "Policy") for each Series of Bonds. Each Policy unconditionally guarantees the payment of that portion of the principal of and interest on the related Series of Bonds which becomes due for payment, but which is unpaid. See "FINANCIAL GUARANTY INSURANCE" and "APPENDIX H – Specimen Financial Guaranty Insurance Policy."

The information in the section captioned "FINANCIAL GUARANTY INSURANCE" has been furnished by the Credit Provider for use in this Official Statement. This information has not been independently confirmed or verified by the City or the Underwriters. No representation is made by the City or the Underwriters as to the accuracy or adequacy of this information subsequent to the date of this Official Statement, or that the information contained and incorporated herein by reference is correct. There can be no assurance that the credit ratings of the Credit Provider will not be downgraded in the future.

Liquidity Support for Bonds. JPMorgan Chase Bank, National Association (the "Liquidity Provider") will provide liquidity for the tender and remarketing of the Bonds under a Standby Bond Purchase Agreement dated as of May 1, 2005, between the City and the Liquidity Provider. The stated expiration date of the Liquidity Facility is the later of May 25, 2012, or the last day of any extension of the Liquidity Facility made in accordance with its terms. See "THE LIQUIDITY PROVIDER AND THE LIQUIDITY FACILITY."

Purpose of Issue. The proceeds of the Bonds, together with the proceeds of the Fixed Rate Bonds and any future bonds issued under Proposition A, will be used for the acquisition, improvement, construction or reconstruction of a new health care, assisted living or other type of continuing care facility or facilities to replace the City's Laguna Honda Hospital. Proceeds of the Bonds will also be used to pay costs of issuing the Bonds. See "FINANCING PLAN."

FINANCING PLAN

Authority for Issuance

Actions by the Board and the Mayor. The Bonds are being issued by the City under the Charter of the City, the Master Trust Agreement, and the following ordinance and resolution adopted by the Board and approved by the Mayor:

> Ordinance No. 24-04, adopted by the Board on February 10, 2004 and approved by the Mayor on February 19, 2004, and

> Resolution No. 66-04, adopted by the Board on February 3, 2004 and approved by the Mayor on February 12, 2004.

Proposition A. The issuance of general obligation bonds in the maximum principal amount of $299,000,000 is authorized under Proposition A, which was approved by at least two-thirds of the voters of the City at an election held on November 2, 1999. The text of Proposition A is as follows:

> "LAGUNA HONDA HOSPITAL, 1999. Shall the City and County incur bonded debt and/or other evidences of indebtedness and/or undertake lease financing, in an aggregate principal amount not exceeding $299,000,000, for the acquisition, improvement, construction and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital, and reduce the property tax impact by requiring the application of available tobacco settlement revenues received by the City and County, and any state and/or federal grants or funds received by the City and County that are required to be used to fund these facilities, (a) to finance the acquisition, improvement, construction and/or reconstruction costs of such facilities, and (b) to pay the principal and redemption price of, interest on, reserve fund deposits, if any, and/or financing costs for the obligations authorized thereby?"

Concurrently with the issuance of the Bonds, the City expects to issue a series of fixed-rate bonds under Proposition A in an original principal amount of $110,000,000 (the "Fixed Rate Bonds"). After the issuance of the Bonds and the expected issuance of the Fixed Rate Bonds, $69,000,000 of unused bond authorization will remain under Proposition A.

Purpose of Issue

The net proceeds of bonds issued under Proposition A will be used for the "Project," as set forth in the ordinance authorizing the election that approved Proposition A, which defines the Project as follows:

> "'Project' is defined to include, without limitation, all works, property and structures necessary or convenient for the acquisition, improvement, construction and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital, including, without limitation, infrastructure or other improvements in the areas appurtenant to, or which provide access to, such new facility or facilities."

Laguna Honda Hospital originally opened in 1866 and currently provides over 1,000 residents with long-term care regardless of their ability to pay, including skilled nursing, AIDS and dementia services, hospice, rehabilitation, and acute care. The hospital also provides adult day health care and senior nutrition programs.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds with respect to the Bonds are as follows:

Estimated Sources:	
Principal Amount of Bonds	$120,000,000.00
TOTAL ESTIMATED SOURCES	$120,000,000.00
Estimated Uses:	
Deposit to Project Account	$117,836,333.17
Deposit to Costs of Issuance Fund [1]	1,465,266.83
Underwriters' Discount [2]	698,400.00
TOTAL ESTIMATED USES	$120,000,000.00

[1] To be applied to pay the Costs of Issuance of the Bonds, which include costs of preparation and reproduction of documents; fees and expenses of the City; initial fees, expenses and charges of the Trustee and its counsel; legal fees and charges of co-bond counsel; fees of co-financial advisors; rating agency fees; fees of the providers of the Credit Facility and the Liquidity Facility and their counsel; and any other cost, charge or fee in connection with the original issuance and delivery of the Bonds.

[2] See "UNDERWRITING" for the Underwriter's discount applicable to each Series of Bonds.

DEBT SERVICE SCHEDULE

Fiscal Year debt service payable with respect to the Bonds (assuming an interest rate on the Bonds of 3.50% and ancillary fees of 0.255%) and on the Fixed Rate Bonds expected to be issued is as follows:

	Series B, C and D Bonds			Fixed Rate Bond			
Period Ending	**Principal**	**Interest (1)**	**Total**	**Principal**	**Interest**	**Total**	**Total Debt Service**
6/15/05	-	$ 75.100.45	$ 75.100.45	-	-	-	$ 75.100.45
12/15/05	-	2,253,419.18	2,253,419.18	-	$ 2,972,997.81	$ 2,972,997.81	5,226,416.99
6/15/06	-	2,252,580.82	2,252,580.82	-	2,689,143.75	2,689,143.75	4,941,724.57
12/15/06	-	2,253,419.18	2,253,419.18	-	2,689,143.75	2,689,143.75	4,942,562.93
6/15/07	-	2,252,580.82	2,252,580.82	-	2,689,143.75	2,689,143.75	4,941,724.57
12/15/07	-	2,253,419.18	2,253,419.18	-	2,689,143.75	2,689,143.75	4,942,562.93
6/15/08	-	2,253,000.00	2,253,000.00	$ 6,215,000.00	2,689,143.75	8,904,143.75	11,157,143.75
12/15/08	-	2,253,000.00	2,253,000.00	-	2,533,768.75	2,533,768.75	4,786,768.75
6/15/09	-	2,252,580.82	2,252,580.82	6,465,000.00	2,533,768.75	8,998,768.75	11,251,349.57
12/15/09	-	2,253,419.18	2,253,419.18	-	2,372,143.75	2,372,143.75	4,625,562.93
6/15/10	-	2,252,580.82	2,252,580.82	6,720,000.00	2,372,143.75	9,092,143.75	11,344,724.57
12/15/10	-	2,253,419.18	2,253,419.18	-	2,204,143.75	2,204,143.75	4,457,562.93
6/15/11	-	2,252,580.82	2,252,580.82	6,955,000.00	2,204,143.75	9,159,143.75	11,411,724.57
12/15/11	-	2,253,419.18	2,253,419.18	-	2,091,125.00	2,091,125.00	4,344,544.18
6/15/12	-	2,253,000.00	2,253,000.00	7,200,000.00	2,091,125.00	9,291,125.00	11,544,125.00
12/15/12	-	2,253,000.00	2,253,000.00	-	1,911,125.00	1,911,125.00	4,164,125.00
6/15/13	-	2,252,580.82	2,252,580.82	7,450,000.00	1,911,125.00	9,361,125.00	11,613,705.82
12/15/13	-	2,253,419.18	2,253,419.18	-	1,724,875.00	1,724,875.00	3,978,294.18
6/15/14	-	2,252,580.82	2,252,580.82	7,745,000.00	1,724,875.00	9,469,875.00	11,722,455.82
12/15/14	-	2,253,419.18	2,253,419.18	-	1,531,250.00	1,531,250.00	3,784,669.18
6/15/15	-	2,252,580.82	2,252,580.82	8,055,000.00	1,531,250.00	9,586,250.00	11,838,830.82
12/15/15	-	2,253,419.18	2,253,419.18	-	1,329,875.00	1,329,875.00	3,583,294.18
6/15/16	-	2,253,000.00	2,253,000.00	8,395,000.00	1,329,875.00	9,724,875.00	11,977,875.00
12/15/16	-	2,253,000.00	2,253,000.00	-	1,120,000.00	1,120,000.00	3,373,000.00
6/15/17	-	2,252,580.82	2,252,580.82	8,765,000.00	1,120,000.00	9,885,000.00	12,137,580.82
12/15/17	-	2,253,419.18	2,253,419.18	-	900,875.00	900,875.00	3,154,294.18
6/15/18	-	2,252,580.82	2,252,580.82	9,155,000.00	900,875.00	10,055,875.00	12,308,455.82
12/15/18	-	2,253,419.18	2,253,419.18	-	672,000.00	672,000.00	2,925,419.18
6/15/19	-	2,252,580.82	2,252,580.82	9,570,000.00	672,000.00	10,242,000.00	12,494,580.82
12/15/19	-	2,253,419.18	2,253,419.18	-	432,750.00	432,750.00	2,686,169.18
6/15/20	-	2,253,000.00	2,253,000.00	10,050,000.00	432,750.00	10,482,750.00	12,735,750.00
12/15/20	-	2,253,000.00	2,253,000.00	-	181,500.00	181,500.00	2,434,500.00
6/15/21	$ 3,300,000.00	2,257,072.49	5,557,072.49	7,260,000.00	181,500.00	7,441,500.00	12,998,572.49
12/15/21	-	2,191,450.15	2,191,450.15	-	-	-	2,191,450.15
6/15/22	11,100,000.00	2,205,743.18	13,305,743.18	-	-	-	13,305,743.18
12/15/22	-	1,983,008.88	1,983,008.88	-	-	-	1,983,008.88
6/15/23	11,400,000.00	1,997,787.80	13,397,787.80	-	-	-	13,397,787.80
12/15/23	-	1,768,934.05	1,768,934.05	-	-	-	1,768,934.05
6/15/24	12,000,000.00	1,784,938.33	13,784,938.33	-	-	-	13,784,938.33
12/15/24	-	1,543,305.00	1,543,305.00	-	-	-	1,543,305.00
6/15/25	12,300,000.00	1,559,759.54	13,859,759.54	-	-	-	13,859,759.54
12/15/25	-	1,312,616.67	1,312,616.67	-	-	-	1,312,616.67
6/15/26	12,900,000.00	1,329,686.66	14,229,686.66	-	-	-	14,229,686.66
12/15/26	-	1,070,374.11	1,070,374.11	-	-	-	1,070,374.11
6/15/27	13,500,000.00	1,088,350.89	14,588,350.89	-	-	-	14,588,350.89
12/15/27	-	816,864.45	816,864.45	-	-	-	816,864.45
6/15/28	14,100,000.00	835,904.17	14,935,904.17	-	-	-	14,935,904.17
12/15/28	-	551,985.00	551,985.00	-	-	-	551,985.00
6/15/29	14,400,000.00	571,482.30	14,971,482.30	-	-	-	14,971,482.30
12/15/29	-	281,677.40	281,677.40	-	-	-	281,677.40
6/15/30	15,000,000.00	301,989.28	15,301,989.28	-	-	-	15,301,989.28
Totals	$120,000,000.00	$95,371,449.98	$215,371,449.98	$110,000,000.00	$54,429,579.06	$164,429,579.06	$379,801,029.04

(1) Represents interest payable through each such date calculated at an assumed rate of 3.50%, with ancillary fees of 0.255% also included.

THE BONDS

This Official Statement contains information regarding the Bonds (other than Bonds purchased by the Liquidity Provider) while bearing interest in the Daily Mode or the Weekly Mode. Purchasers of Bonds should not rely on this Official Statement for information relating to the Bonds following a conversion of all or a Series of the Bonds to the Term Mode, to a Fixed Rate or to auction rate securities. Further, no information is provided in this Official Statement regarding Bank Bonds. See "APPENDIX D – SUMMARY OF MASTER TRUST AGREEMENT" for a more detailed description of the terms of the Bonds.

General Terms

Dated Date. The Bonds of each Series will be dated their date of issuance and will bear interest until maturity or prior redemption as provided in the Trust Agreement.

Authorized Denominations. The Bonds will be issued as fully registered Bonds in "Authorized Denominations," which is defined in the Trust Agreement as $100,000 or any integral multiple of $5,000 in excess of $100,000.

Maturity. The Bonds will mature on June 15, 2030.

Interest Payment Dates. Interest on the Bonds is payable on each Interest Payment Date, which is defined as (a) the fifteenth day of each month (or, if the fifteenth (15th) day of a month is not a Business Day, then the next succeeding Business Day), commencing on June 15, 2005, (b) any Mode Change Date, and (c) the maturity date of the Bonds; provided that if any Interest Payment Date is not a Business Day, interest (and any principal due) will be mailed or wired on the next succeeding Business Day and no interest will accrue from the date when due.

Computation of Interest. Interest on the Bonds will be computed on the basis of a 365/366 day year for the number of days actually elapsed and will include interest accrued on the Bonds through but not including the applicable Interest Payment Date.

Payments of Principal and Interest. The interest on the Bonds is payable to the person whose name appears on the registration books of the Trustee as the registered owner thereof as of the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed by first-class mail, postage prepaid, on such Interest Payment Date, to the registered owner at his or her address as it appears on such registration books or, at the request of any Holder of at least $1,000,000 aggregate principal amount of Bonds, by wire transfer of immediately available funds to the bank account or number within the United States specified by such Holder in writing to the Trustee for that purpose prior to the applicable Record Date.

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities in book-entry form only, registered initially in the name of Cede & Co. (DTC's partnership nominee). So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references in this Official Statement to the "Owners" will mean Cede & Co., and will not mean the Beneficial Owners of the Bonds. Purchasers of the Bonds will not receive physical certificates representing their interest in the Bonds. See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Registration, Transfer and Exchange

Registration. The Trustee will keep or cause to be kept, at its Principal Corporate Trust Office, sufficient books for the registration of transfer of the Bonds. Upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register (or cause to be registered) the transfer of Bonds on the registration books.

Transfer. The registration of any Bond may, in accordance with its terms, be transferred upon the registration books required to be kept by the Trustee under the Trust Agreement, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. No registration of transfers of Bonds will be made during the period established by the Trustee for selection of Bonds for redemption and after a Bond has been selected for redemption (however, tenders of Bonds under the Trust Agreement are not affected by this provision).

Exchange. Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee for a like aggregate principal amount of the Bonds of the same Series and maturity. The Trustee will require the Holder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange, and there will be no other charge to any Holder for any such exchange. No exchanges of Bonds will be made during the period established by the Trustee for selection of Bonds for redemption and after a Bond has been selected for redemption.

Determination of Interest Rates

Daily Mode. When a Series of Bonds is in the Daily Mode, such Series of Bonds will bear interest at the Daily Rate, which the respective Remarketing Agent will determine not later than 12:30 p.m. (California time) on each Business Day. The Daily Rate for any day that is not a Business Day will be the Daily Rate last established on a preceding Business Day.

The Daily Rate is the rate determined by the respective Remarketing Agent (on the basis of examination of obligations comparable to such Series of Bonds known by such Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by such Series of Bonds, would enable such Remarketing Agent to sell such Series of Bonds on that day at a price equal to the principal amount thereof plus accrued interest; provided, however, that if for any reason the Daily Rate cannot be determined, the Daily Rate for the next succeeding day will remain at the then-existing rate. (If the Daily Rate cannot be determined for five consecutive Business Days, then the Alternate Rate will be effective, as described below).

In no event may the Daily Rate exceed the Maximum Rate (as defined below).

Weekly Mode. When a Series of Bonds is in the Weekly Mode, such Series of Bonds will bear interest at the Weekly Rate for each Weekly Rate Period, which the respective Remarketing Agent will determine not later than 2:00 p.m. (California time) on the Rate Determination Date (or by not later than 9:00 a.m. (California time) if the Rate Determination Date is a Business Day following a Wednesday that was not a Business Day).

The Weekly Rate is the rate determined by the respective Remarketing Agent (on the basis of examination of obligations comparable to such Series of Bonds known by such Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by such Series of Bonds, would enable such Remarketing Agent to sell such Series of Bonds for that Weekly Rate Period at a price equal to the principal amount thereof plus accrued interest; provided, however, that if for any reason the Weekly Rate cannot be determined by 9:00 a.m. (California Time) on the first day of such Weekly Rate Period, the Weekly Rate for such Weekly Rate Period will remain at the then-existing rate. (If the Weekly Rate cannot be determined for a second Weekly Rate Period, then the Alternate Rate will be effective, as described below).

In no event may the Weekly Rate exceed the Maximum Rate (as defined below).

Alternate Rate for Interest Calculation. A Series of Bonds will bear interest at the Alternate Rate (as defined below) in a Daily Mode or Weekly Mode, as applicable, from the last date on which the interest rate was determined, under the following circumstances:

(a) the Remarketing Agent fails or is unable to determine the Daily Rate, if applicable to a Series of Bonds, for five consecutive Business Days,

(b) the Remarketing Agent fails or is unable to determine the Weekly Rate, if applicable to a Series of Bonds, for two consecutive Weekly Rate Periods, or

(c) the method of determining the interest rate(s) with respect to a Series of Bonds is held to be unenforceable by a court of law of competent jurisdiction.

If the Alternate Rate is in effect, a Series of Bonds may resume to bear interest at a Daily Rate or a Weekly Rate, as applicable, at such time as the Remarketing Agent is able to determine the interest rates with respect to a Series of Bonds, or an Opinion of Bond Counsel is delivered to the effect that the method of determining interest under the Trust Agreement is legally enforceable, as applicable.

"Alternate Rate" means the lesser of the Maximum Rate or BMA Index as of the most recent date for which such index was published or such other index comprised of seven-day, tax-exempt variable rate demand notes in the highest short-term rating category produced by Municipal Market Data, Inc. or its successor, or as otherwise determined by The Bond Market Association; provided, however, that if such index is no longer produced by Municipal Market Data, Inc. or its successor, then the rate of a reasonably comparable index selected by the City.

"Maximum Rate" means, for a Series of the Bonds in the Weekly Mode or Daily Mode, the lesser of the maximum rate allowed by law and twelve percent (12%) per annum.

"BMA Index" means on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Bond Market Association ("BMA") or any Person acting in cooperation with or under the sponsorship of BMA and effective from such date.

The Determination of Interest Rate Conclusive. The determination of the interest rate on a Series of Bonds by the applicable Remarketing Agent is conclusive and binding upon the Owners of the Bonds, the City, the Credit Provider, the Liquidity Provider, and the Trustee.

Redemption

Optional Redemption. Each Series of Bonds is subject to optional redemption as a whole or in part prior to maturity on any date while such Series of Bonds are in a Daily Mode or a Weekly Mode, or on any Mode Change Date (provided that any redemption on a Mode Change Date will not affect the obligation to have a mandatory tender and purchase of Bonds), from any source of available funds of the City at a redemption price equal to the principal amount thereof, without premium, plus accrued interest, if any, to the date fixed for redemption.

Mandatory Sinking Fund Redemption. Each Series of Bonds is subject to mandatory sinking fund redemption by lot, on June 15 in each of the years and in the respective amounts set forth on the table below, at a redemption price equal to the principal amount to be redeemed (without premium), together with accrued interest to the date fixed for redemption. However, if some but not all of such Series of Bonds have been redeemed through an optional redemption, the total principal amount of such Series of Bonds subject to mandatory sinking fund redemption will be reduced on a pro rata basis, or as otherwise specified in writing by the City, in integral multiples of an Authorized Denomination.

Series B Bonds

Redemption Date (June 15)	Principal Amount
2021	$1,100,000
2022	3,700,000
2023	3,800,000
2024	4,000,000
2025	4,100,000
2026	4,300,000
2027	4,500,000
2028	4,700,000
2029	4,800,000
2030 (maturity)	5,000,000

Series C Bonds

Redemption Date (June 15)	Principal Amount
2021	$1,100,000
2022	3,700,000
2023	3,800,000
2024	4,000,000
2025	4,100,000
2026	4,300,000
2027	4,500,000
2028	4,700,000
2029	4,800,000
2030 (maturity)	5,000,000

Series D Bonds

Redemption Date (June 15)	Principal Amount
2021	$1,100,000
2022	3,700,000
2023	3,800,000
2024	4,000,000
2025	4,100,000
2026	4,300,000
2027	4,500,000
2028	4,700,000
2029	4,800,000
2030 (maturity)	5,000,000

Notice of Redemption. The Trustee will give notice of redemption to (i) the respective Holders of any Bonds designated for redemption at their addresses appearing on the Bond registration books of the Trustee, with a copy to the Liquidity Provider, (ii) the Information Services and (iii) the Securities Depository.

Each notice of redemption will state the date of such notice, the redemption date, the redemption price (including any premium), the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number (if any) of the maturity or maturities (provided that the City will supply the CUSIP numbers, and to the extent a Bond is redeemed or not because the CUSIP number designations of redeemed bond was incorrect, such event shall not, under any circumstances, result in any liability to the Trustee or the City in identifying a Bond by its CUSIP number) and, if less than all the Bonds of any maturity are to be redeemed, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed.

Each redemption notice will also state that on the redemption date the redemption price of each Bond (or portion thereof) called for redemption will become due and payable, together with accrued interest to the redemption date, and that from and after the redemption date interest on that Bond will cease to accrue. The redemption notice will require that Bonds called for redemption be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

At the direction of the City, the Trustee will give notice of redemption conditioned on the receipt of funds prior to or on the date fixed for redemption for the payment in full of the Bonds then called for redemption or on any other specified event.

The Trustee will mail any notice of redemption by first-class mail, postage prepaid, to Bondholders, the Credit Provider and the Liquidity Provider not less than thirty (30) days or more than sixty (60) days prior to the date fixed for redemption. The Trustee will mail notices to the Information Services by certified, registered or overnight mail at the time of the mailing of notices to Bondholders. The Trustee will give notices to the Securities Depository by telecopy or by certified, registered or overnight mail at least one (1) Business Day before the mailing of notices to Bondholders.

The Trustee will give notice of redemption of Bonds at the expense of the City. The Trustee will give notice to the City of any scheduled redemption of the Bonds.

Failure to receive notice of redemption as required under the Trust Agreement, or the insufficiency of any redemption notice, will not affect the sufficiency of the proceedings for redemption of any Bonds.

Effect of Redemption. If moneys for payment of the Redemption Price of the Bonds (or portions thereof) called for redemption are held by the Trustee, on the redemption date designated in the redemption notice, (i) those Bonds will become due and payable at the Redemption Price specified in the redemption notice, (ii) interest on those Bonds will cease to accrue from and after the redemption date, (iii) those Bonds will cease to be entitled to any benefit or security under the Trust Agreement, and (iv) the Holders of those Bonds will have no rights in respect of those Bonds except to receive payment of the redemption price.

Optional Tender of Bonds by Owner

The Owner of any Bond in the Daily Mode or the Weekly Mode may elect to tender one or more of its Bonds, or portion thereof in an Authorized Denomination, for purchase at a purchase price equal to 100% of the principal amount of such Bond to be tendered, plus accrued and unpaid interest to but not including the date of purchase, on any Business Day (the "Optional Tender Date"), but only if the following conditions are met:

(i) (a) in the case of Bonds in the Weekly Mode, upon receipt by the Remarketing Agent and the Trustee by not later than 1:00 p.m. (California time) at least seven (7) calendar days, prior to the Optional Tender Date of irrevocable written notice from the Owner or the DTC Participant with respect to such Bonds, and

(b) in the case of Bonds in the Daily Mode, upon receipt by the Remarketing Agent and the Trustee by not later than 8:00 a.m. (California time) on the Optional Tender Date of irrevocable telephonic notice, promptly confirmed in writing, from the Owner or the DTC Participant with respect to such Bonds.

The optional tender notice must state (1) the principal amount of the Bond (or portion thereof, provided the remaining portion held by the Owner is in an Authorized Denomination) to be tendered, (2) the Bond number or other identification satisfactory to the Remarketing Agent, and (3) the Optional Tender Date on which such Bond will be tendered.

(ii) If the Bonds are not Book-Entry Bonds, the Owner must deliver the Bond or Bonds being tendered (with an appropriate instrument of transfer duly executed in blank) to the Trustee by 9:30 a.m. (California time) on the Optional Tender Date.

Mandatory Tender for Purchase

Events Triggering Mandatory Tender. Any Series of Bonds is subject to mandatory tender by the Owners, and mandatory purchase by the Trustee, on any of the following dates (each a "Purchase Date"), to the extent applicable to that Series of Bonds:

(i) on each Mode Change Date for that Series,

(ii) on the first day following the end of a Term Rate Period for that Series,

(iii) if that Series is in a Daily Mode or a Weekly Mode, on the effective date of an Alternate Liquidity Facility or Self Liquidity for that Series,

(iv) if a Liquidity Facility is in effect for that Series, on any date within five days after receipt by the Trustee of written notification from the Liquidity Provider that an event of default under the Liquidity Facility has occurred and is continuing and instructing the Trustee to call a mandatory tender of that Series, and

(v) if a Liquidity Facility is in effect for that Series, on the fifth Business Day preceding the expiration date of a Liquidity Facility if the Trustee has not received an Alternate Liquidity Facility that will be effective on or prior to that expiration date.

Purchase Price. On any Purchase Date, the DTC Participant or Owner of any Bond subject to mandatory tender is required to tender that Bond for purchase as provided in the Trust Agreement, and that Bond will be purchased or deemed purchased as provided in the

Trust Agreement at a Purchase Price equal to the principal amount thereof plus accrued interest thereon.

Subject to the Trust Agreement, payment of the Purchase Price of such Bond will be made by 1:30 p.m. (California time), in the same manner as payment of interest on the Bonds. The Owner must deliver Bonds subject to mandatory tender no later than 9:30 a.m. (California time) on the Purchase Date to the Trustee at its corporate trust office, accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, with the signature guaranteed in accordance with the guidelines set forth by one of the nationally recognized medallion signature programs. With respect to the Book-Entry Certificates, the Trustee will perform such procedures as are appropriate to carry out the foregoing procedures under the Book-Entry System.

Bonds Delivered for Purchase. The Trustee will purchase, but only from the sources listed below, any Bonds required to be purchased by the Trustee following an optional or mandatory tender not later than 1:30 p.m. (California time) on the date those Bonds are required to be purchased at the Purchase Price calculated under the Trust Agreement. The Trustee will derive funds for the payment of the Purchase Price from the following sources in the following order of priority:

1. The remarketing proceeds of the sale of the Bonds as are received from purchasers of the Bonds under the Trust Agreement.

2. Moneys furnished to the Trustee representing the proceeds of a draw made under the Liquidity Facility.

If moneys sufficient to pay the Purchase Price of Bonds is held by the Trustee on the date such Bonds are to be purchased, any Bonds to be so purchased will be deemed to have been transferred on such date and to have been purchased. The Owner or DTC Participants will thereafter have no rights with respect to such Bonds except to receive payment of the Purchase Price.

Remarketing of Bonds; Notice of Interest Rates. At any time a Series of the Bonds are in a Daily Mode, Weekly Mode or Term Mode, the City is required to enter into a Remarketing Agreement that contains substantially the following provisions:

(i) Bonds will be remarketed at par value plus accrued interest, if any.

(ii) The Remarketing Agent may not remarket any Bonds to the City.

(iii) The Remarketing Agent will determine the rate of interest to be borne by a Series of the Bonds as provided in the Trust Agreement and will furnish to the Trustee in a timely manner all information necessary for the Trustee to carry out its duties under the Trust Agreement.

(iv) The Remarketing Agent will periodically inform the Trustee of the rate of interest borne by the Bonds from time to time.

(v) The Remarketing Agent will use its best efforts to sell any Bonds tendered for purchase to new purchasers. By 8 a.m. (California time) on the Purchase Date, the Remarketing Agent will notify the Trustee by telephone of the actual amount of remarketing proceeds on hand and the principal amount of the Bonds tendered for purchase and not remarketed.

Remarketing Agents. On the Closing Date the City will enter into a remarketing agreement with Banc of America Securities LLC with respect to the Series B Bonds, a remarketing agreement with Bear, Stearns & Co. Inc. with respect to the Series C Bonds, and a remarketing agreement with E. J. De La Rosa & Co., Inc., with respect to the Series D Bonds.

Delivery of Remarketed Bonds. The Trustee will hold all Bonds delivered to it in trust for the benefit of the respective Owners or DTC Participants until moneys representing the Purchase Price of those Bonds is delivered to or for the account of or to the order of such Owners or DTC Participants. The Trustee will hold all moneys for the purchase of Bonds uninvested in trust for the benefit of the person or entity which delivers such moneys until Bonds purchased with such moneys are delivered to or for the account of such person or entity. The City has no right, title, or interest in or to any remarketing proceeds held by the Trustee or the Remarketing Agent. With respect to the Book-Entry Bonds, the Trustee will perform such procedures as are appropriate to carry out the foregoing procedures under the Book-Entry System.

If any Bonds are not presented to the Trustee at the time specified in the Trust Agreement, (each an "Undelivered Bond"), then the City will execute and deliver to the Trustee for authentication a new Bond or Bonds, as the case may be, in an aggregate principal amount equal to the principal amount of the Undelivered Bonds bearing a number or numbers not contemporaneously outstanding. The Trustee will, at the end of the Purchase Date, transfer all funds then held on hand by virtue of the fact that Bonds deemed tendered on such date were not presented for purchase to a segregated account for the Bonds to be designated the "Unclaimed Moneys Account" and hold the same in trust, uninvested, for the payment of the Purchase Price thereof to the former Owner of such Bonds.

Draws Upon Liquidity Facility. The Trustee will draw on the Liquidity Facility on the Purchase Date in the amount equal to the Purchase Price of Bonds covered by the Liquidity Facility that have been tendered and not remarketed on the Purchase Date. This balance will be determined based upon notification provided to the Trustee under the Trust Agreement. Such moneys will be used only to pay the Purchase Price, and if not so used will be promptly returned to the Liquidity Provider.

If at any time there is an Alternate Liquidity Facility, then the times and timing specified in the preceding paragraph may be modified upon the approval of the Trustee so as to provide Bondholders the full benefit of the provisions of the Alternate Liquidity Facility.

Delivery of Proceeds of Sale Held by the Remarketing Agent. If the Remarketing Agent has received from the purchasers of the Bonds remarketing proceeds for the remarketing of all Bonds to be remarketed, the Remarketing Agent will promptly forward to the Trustee by not later than 9 a.m. (California time) on the Purchase Date such remarketing proceeds by wire transfer for transfer to the Beneficial Owners tendering such Bonds for purchase. Until such transfer, the Remarketing Agent will deposit all such remarketing proceeds in a separate, segregated account, and until so applied, will hold those remarketing proceeds uninvested in trust for the benefit of the Beneficial Owners tendering such Bonds for purchase.

No Remarketing After Default. No remarketing of Bonds will take place under the Trust Agreement under the following circumstances:

(i) if an Event of Default consisting of a default in the payment of principal of, premium of, interest on or Purchase Price of any Bond occurs and continues as described in the Trust Agreement, or

(ii) upon receipt by the Trustee of written notification from the Liquidity Provider that an event of default under the Liquidity Facility has occurred and is continuing and instructing the Trustee to call for a mandatory tender of the Bonds, or

(iii) for the period during which the Trustee has notice that the amount available to be drawn under the Liquidity Facility will not or has not been reinstated or at any time when no Liquidity Facility is in effect.

The Trustee will give immediate notice to the Remarketing Agent, the Credit Provider, the City, the Liquidity Provider and the Bondholders of the (i) occurrence and continuation of any of the Events of Default set forth in the preceding sentence or the termination of the Liquidity Facility and that, as a result, no remarketing of Bonds are permitted under the Trust Agreement, and (ii) the curing of such Events of Default or reinstatement of the Liquidity Facility and that, as a result, remarketing is again permitted under the Trust Agreement.

Notices Upon Delivery of Alternate Liquidity Facility or Self-Liquidity. Whenever the City has delivered to the Trustee notice of delivery of an Alternate Liquidity Facility or Self-Liquidity under the Trust Agreement, the Trustee will mail a notice to all Owners, with a copy to the Liquidity Provider, stating: (i) the name of the issuer of the Alternate Liquidity Facility, if applicable, (ii) the date on which the Alternate Liquidity Facility or Self Liquidity will become effective, (iii) the rating expected to apply to the Bonds after the Alternate Liquidity Facility or Self Liquidity is delivered, and (iv) if the Bonds are in the Daily Mode or the Weekly Mode, notice that the Bonds will be subject to mandatory tender for purchase on the effective date of the Alternate Liquidity Facility or Self Liquidity. This notice will be mailed at least 15 days prior to the effective date of the Alternate Liquidity Facility or Self Liquidity.

Changes Between Interest Rate Modes

The City may elect to convert any Series of Bonds (other than Fixed Rate Bonds) to a Daily Mode, Weekly Mode, Term Mode or Fixed Rate, or to Auction Rate Securities, with the notice and under the conditions set forth in the Trust Agreement, in part as described below.

Among other requirements, before any change of a Series of the Bonds from one Mode to a Daily Mode, Weekly Mode, Term Mode or Fixed Rate takes effect,

(a) the City must receive the written consent of the Credit Provider for such Series of Bonds, and

(b) the Trustee, the Remarketing Agent, the Broker-Dealer and the Credit Provider must receive an Opinion of Bond Counsel to the effect that the conversion is authorized under the Trust Agreement and will not, in and of itself, adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

Conversion to Daily Mode. The City, by written direction to the Auction Agent, Broker-Dealer, Trustee and the Remarketing Agent, and with notice to the Credit Provider and the Liquidity Provider, may elect to adjust the Mode for a Series of the Bonds from Auction Rate Securities, a Weekly Mode or a Term Mode to a Daily Mode. This direction must be given at least thirty (30) days before the effective date of the adjustment and must specify the effective date of the adjustment to a Daily Mode, which will be:

(i) an Interest Payment Date for Auction Rate Securities and any Series of Bonds in a Weekly Mode, or

(ii) for a Series of Bonds in the Term Mode, (a) the final Interest Payment Date of the then current Term Rate Period, or (b) any date on which that Series of Bonds may be optionally redeemed at a Purchase Price of 100% of the principal amount thereof, plus accrued interest.

The Trustee will give notice by mail of an adjustment to a Daily Mode to the Owners of the applicable Series of the Bonds, with copies to the Liquidity Provider, the Remarketing Agent, the Broker-Dealer (if any for the Series being converted) and the City, not less than fifteen (15) days before the effective date of the Daily Mode. This notice will state (1) that the interest rate on that Series of Bonds will be adjusted to a Daily Rate, (2) the effective date of the Daily Mode, (3) that the Bonds will be purchased on the effective date through a mandatory tender for purchase under the Trust Agreement, and (4) the procedures of such purchase.

Failure to receive any notice of an adjustment to a Daily Mode, or the insufficiency of any such notice, will not affect the sufficiency of the proceedings for a Mode Change.

Conversion to Weekly Mode. The City, by written direction to the Auction Agent, Broker-Dealer, Trustee and the Remarketing Agent, and with notice to the Credit Provider and the Liquidity Provider, may elect to adjust the Mode for a Series of the Bonds from Auction Rate Securities, a Daily Mode or a Term Mode to a Weekly Mode. This direction must be given at least thirty (30) days before the effective date of the adjustment and must specify the effective date of the adjustment to a Weekly Mode, which will be:

(i) any Interest Payment Date for Auction Rate Securities and any Series of Bonds in a Daily Mode, or

(ii) for a Series of Bonds in the Term Mode, (a) the final Interest Payment Date of the then current Term Rate Period, or (b) any date on which that Series of Bonds may be optionally redeemed at a Purchase Price of 100% of the principal amount thereof, plus accrued interest.

The Trustee will give notice by mail of an adjustment to a Weekly Mode to the Owners of the applicable Series of the Bonds, with copies to the Liquidity Provider, the Remarketing Agent, the Credit Provider, the Broker-Dealer (if any for the Series being converted) and the City, not less than fifteen (15) days before the effective date of the Weekly Mode. This notice will state (1) that the interest rate on such Bonds will be adjusted to a Weekly Rate, (2) the effective date of the Weekly Mode, (3) that the Bonds will be purchased on the effective date through a mandatory tender for purchase under the Trust Agreement, (4) the procedures for such purchase, and (5) that such portion of Bonds not in Authorized Denominations on the Mode Change Date will be purchased through a mandatory tender for purchase under the Trust Agreement.

Failure to receive any notice of an adjustment to a Weekly Mode, or the insufficiency of any such notice, will not affect the sufficiency of the proceedings for a Mode Change.

Conversion to Term Mode. The City, by written direction to the Auction Agent, Broker-Dealer, Trustee and the Remarketing Agent, and with notice to the Credit Provider, may elect to adjust the Mode for a Series of the Bonds from Auction Rate Securities, a Daily Mode or a Weekly Mode to a Term Mode, or continue in the Term Mode then in effect and designate a new Term Rate Period. This direction must be given at least thirty (30) days before the effective date of the adjustment, and must specify the effective date of the Term Rate Period, which will be

(a) any Interest Payment Date, for Auction Rate Securities, a Daily Mode or a Weekly Mode, and

(b) in the case of a continuation of a Term Mode, the last Interest Payment Date of the then-current Term Rate Period.

In addition, the City's written direction must specify the last day of the new Term Rate Period, which will be a day immediately preceding a Business Day.

At least thirty (30) days before the last day of any Term Rate Period, the City will elect whether a Series of the Bonds will bear interest at a Daily Rate, a Weekly Rate, a Term Rate, a Fixed Rate or the Applicable ARS Rate after the then-effective Term Rate Period.

The Trustee will give notice by mail of each Term Rate Period to the Owners of the applicable Series of the Bonds, with copies to the Liquidity Provider, the Remarketing Agent, the Broker-Dealer (if any for the Series being converted) and the City, not less than fifteen (15) days before the effective date of the Term Rate Period. Such notice will state (1) that the interest rate on that Series of Bonds will be adjusted to or continue to be a Term Rate, (2) the effective date of the Term Rate Period, (3) that the Bonds will be purchased on the effective date through a mandatory tender for purchase under the Trust Agreement, and (4) the procedures of such purchase.

Failure to receive any notice of an adjustment to a Term Mode, or the insufficiency of any such notice, will not affect the sufficiency of the proceedings for a Mode Change.

Conversion to Fixed Rate. The City may, by written direction to the Auction Agent, Broker-Dealer, Trustee and the Remarketing Agent, with notice to the Credit Provider, and with the consent of the Credit Provider or an executed underwriting agreement, convert the Bonds to a Fixed Rate. This written direction will be given at least forty-five (45) days before the conversion to the Fixed Rate and will specify the effective date of the Fixed Rate, which will be

(a) in the case of an adjustment from a Daily Mode or a Weekly Mode, an Interest Payment Date on which interest is payable for the Weekly Mode from which the adjustment is to be made;

(b) in the case of an adjustment from a Term Mode, the last Interest Payment Date of the then current Term Rate Period, or

(c) in the case of Auction Rate Securities, an ARS Interest Payment Date.

Upon conversion to a Fixed Rate, the City may change one or more mandatory sinking fund payments to serial maturities, subject to receiving the Opinion of Bond Counsel described in the Trust Agreement.

Notice of Conversion. The Trustee will give notice by mail of the conversion to the Fixed Rate to the Owners of the applicable Series of the Bonds, with copies to the Liquidity Provider, the Remarketing Agent, the Broker-Dealer (if any for the Series being converted) and the City, not less than fifteen (15) days before the effective date of the Fixed Rate. This notice will state (1) that the interest rate on that Series of Bonds will be adjusted to a Fixed Rate, (2) the effective date of the Fixed Rate, (3) that the Bonds will be purchased on such effective date through a mandatory tender for purchase under the Trust Agreement, and (4) the procedures of such purchase.

Failure to receive any notice of an adjustment to a Fixed Rate, or the insufficiency of any such notice, will not affect the sufficiency of the proceedings for a Mode Change.

Cancellation of Change to Daily, Weekly, Term or Fixed Rate Mode. Notwithstanding the City's delivery of notice of the exercise of its option to effect a Mode Change for a Series of Bonds to a Daily, Weekly, Term or Fixed Rate Mode, conversion to the new Mode will not take effect if any of the following occur:

(A) the City notifies the Trustee of its determination to cancel the Mode Change not later than the Business Day preceding the date on which the rate for the new Mode is to be determined;

(B) the applicable Remarketing Agent fails to determine the rate for the new Mode;

(C) the notice to Owners required under the Trust Agreement is not given when required;

(D) the prior written consent of the Credit Provider is not obtained, or

(E) an Opinion of Bond Counsel is not obtained.

If any of these events occur, the applicable Series of Bonds will continue to be payable at the same Variable Rate (unless the applicable Series of Bonds was being converted from a Term Rate, in which case that Series of Bonds will be payable at the Weekly Rate, or from ARS, in which case that Series of Bonds will be payable at the ARS Maximum Rate).

The City will give notice of cancellation or failure of a Mode Change to the Trustee, the Remarketing Agent, the Market Agent, the Auction Agent, the Credit Provider and the Liquidity Provider, by telephone, and promptly confirmed in writing. No cancellation of a Mode Change constitutes an Event of Default under the Trust Agreement.

Conversion to Auction Rate Securities.

Procedures for Conversion. The City may, from time to time, by written direction to the Trustee, the Credit Provider, the Liquidity Provider and the Remarketing Agent elect that a Series of the Bonds will be converted to Auction Rate Securities and bear interest at the "Applicable ARS Rate" (as defined in the Trust Agreement).

The written direction of the City will specify

(A) the proposed effective date of the conversion to the Applicable ARS Rate, which must be

(1) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Trustee of the City's written direction,

(2) in the case of a Mode Change from a Term Mode, the day immediately following the last day of the then-current Term Mode or a day on which such Bonds would otherwise be subject to optional redemption under the Master Trust Agreement if such Mode Change did not occur,

(3) in the case of a Mode Change from a Weekly Mode, the day immediately following the last day of a Weekly Rate Period, and

(4) in the case of a Mode Change from a Daily Mode, any Business Day,

(B) the Tender Date for the Bonds to be purchased, which is the proposed effective date of the adjustment to the Applicable ARS Rate, and

(C) the initial Auction Period.

In addition, the direction of the City must be accompanied by (i) the prior written consent of the Credit Provider, and (ii) a form of notice to be mailed to the Holders by the Trustee in accordance with the Trust Agreement. During each ARS Interest Rate Period commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate borne by the Bonds will be the Applicable ARS Rate.

Notice of Conversion. The Trustee will give notice by first-class mail of an adjustment to an ARS Interest Rate Period to the related Holders not less than thirty (30) days prior to the proposed effective date of the ARS Interest Rate Period. This notice will state (1) that the interest rate will be adjusted to the Applicable ARS Rate unless the City rescinds its election to adjust the interest rate to the Applicable ARS Rate (as described below), (2) the proposed effective date of the ARS Interest Rate Period, and (3) that the Bonds are subject to mandatory tender for purchase on the proposed effective date and setting forth the Tender Price and the place of delivery for purchase of the Bonds being converted to Auction Rate Securities.

Rescission of Election to Convert to Auction Rate Securities. The City may elect to rescind its election to convert a Series of Bonds to Auction Rate Securities by delivering a notice of such election to the Trustee, the Remarketing Agent, the Credit Provider and the Liquidity Provider on or prior to 10:00 a.m. on the second Business Day preceding the effective date of the proposed conversion. If the City rescinds its election to make such Mode Change, then the applicable Series of Bonds will not be converted and that Series of Bonds will continue to bear interest at the Daily Rate, Weekly Rate or Term Rate, as the case may be, as in effect immediately prior to the proposed conversion.

In any event, if notice of a conversion has been mailed to the Holders as provided in the Trust Agreement and the City rescinds its election to make the conversion, the Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the conversion.

Conversion to Initial Interest Rate. The City may, as part of a Mode Change permitted under the Trust Agreement, convert a Series of the Bonds to an Initial Interest Rate, which is defined in the Trust Agreement as a fixed interest rate for a specific period followed by an automatic conversion to a Daily Rate, Weekly Rate or Auction Rate.

The Remarketing Agent will determine the Initial Interest Rate not later than 2:00 p.m. (California time) on a Rate Determination Date, which is defined as at least one Business Day before the Mode Change Date. In no event shall the Initial Interest Rate exceed the Maximum Rate. On the Rate Determination Date, the City will also designate the Initial Interest Rate Period and the Variable Rate that will immediately follow such Initial Interest Rate Period.

Bonds bearing interest at the Initial Interest Rate are not subject to optional tender during the Initial Interest Rate Period, and there will be no mandatory tender of such Bonds when the Initial Interest Rate Period ends and such Bonds change to a Variable Rate.

THE LIQUIDITY PROVIDER AND THE LIQUIDITY FACILITY

Liquidity Provider

The information relating to the Liquidity Provider in this section has been obtained from the Liquidity Provider, JPMorgan Chase Bank, National Association. The delivery of the Official Statement will not create any implication that there has been no change in the affairs of JPMorgan Chase Bank, National Association, since the date hereof, or that the information contained or referred to in this Section is correct as of any time subsequent to its date.

No representation is made by the City or the Underwriters as to the accuracy of this information or as to the absence of material adverse changes in the condition of the Liquidity Provider after the date of this Official Statement. There can be no assurance that the credit rating of the Liquidity Provider will not be downgraded in the future.

JPMorgan Chase Bank, National Association ("JPMCB") is a wholly-owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. JPMCB is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. It is chartered, and its business is subject to examination and regulation, by the Office of the Comptroller of the Currency, a bureau of the United States Department of the Treasury. JPMCB's main office is located in Columbus, Ohio. It is a member of the Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation.

Effective July 1, 2004, Bank One Corporation merged with and into JPMorgan Chase & Co., the surviving corporation in the merger, pursuant to the Agreement and Plan of Merger dated as of January 14, 2004.

Prior to November 13, 2004, JPMCB was in the legal form of a banking corporation organized under the laws of the State of New York and was named JPMorgan Chase Bank. On that date, it became a national banking association and its name was changed to JPMorgan Chase Bank, National Association. (the "Conversion"). Immediately after the Conversion, Bank One, N.A. (Chicago) and Bank One, N.A. (Columbus) merged into JPMCB.

Additional information, including the most recent Form 10-K for the year ended December 31, 2004, of JPMorgan Chase & Co. and additional annual, quarterly and current reports filed with the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained from the Securities and Exchange Commission's Internet site (http://www.sec.gov), or without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

Liquidity Facility

The Liquidity Facility provides liquidity support only for the outstanding Bonds while they bear interest at a Weekly Rate or Daily Rate, and does not provide liquidity support for the Bonds in any other interest rate Mode. The following is a summary of certain provisions of the Liquidity Facility. This summary does not purport to be comprehensive, and reference should be made to the Liquidity Facility for its complete terms. Capitalized terms used under this heading not defined elsewhere in this Official Statement have the meanings set forth in the Liquidity Facility.

The information relating to the Liquidity Facility in this section has been reviewed by the Liquidity Provider. No representation is made by the City or the Underwriters as to the accuracy of this information.

General. During the term of the Liquidity Facility, the Liquidity Provider will purchase Bonds which are delivered to the Trustee but not remarketed by the Remarketing Agent. The initial Liquidity Facility covers only Bonds bearing interest at a Weekly Rate or a Daily Rate. See "THE BONDS – Optional Tender of Bonds by Owner" and "-Mandatory Tender for Purchase."

Expiration Date. The Liquidity Facility will expire on its "Stated Expiration Date," which is defined as the later of

(i) May 25, 2012 (or, if such day is not a Business Day, the immediately preceding Business Day) and

(ii) the last day of any extension of this date under the Liquidity Facility, as described below (or, if such day is not a Business Day, the immediately preceding Business Day).

UNDER CERTAIN CIRCUMSTANCES DESCRIBED BELOW, THE OBLIGATION OF THE LIQUIDITY PROVIDER TO PURCHASE BONDS TENDERED BY THE OWNERS OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED BY THE LIQUIDITY PROVIDER WITHOUT A PURCHASE BY THE LIQUIDITY PROVIDER. IN SUCH AN EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE BONDS TENDERED BY THE OWNERS OR SUBJECT TO MANDATORY PURCHASE. IN ADDITION, THE LIQUIDITY FACILITY DOES NOT PROVIDE SECURITY FOR THE PAYMENT OF PRINCIPAL OF OR INTEREST OR PREMIUM, IF ANY, ON THE BONDS.

Purchase of Tendered Bonds by the Liquidity Provider. The Liquidity Provider will agree, on the terms and subject to the conditions set forth in the Liquidity Facility, from time to time during the Bank Purchase Period, to extend credit to the City through the purchase at the Purchase Price of Tendered Bonds with the Liquidity Provider's own funds, up to the amount of the Available Commitment.

Principal Amount of Purchased Bonds. The aggregate principal amount (or portion thereof) of any Bond purchased by the Liquidity Provider on the Bank Purchase Date will be an Authorized Denomination and in any case

(x) the aggregate principal amount of all Bonds purchased on the Bank Purchase Date will not exceed the Available Principal Commitment (as such Available Principal Commitment is calculated without giving effect to any purchase of Bonds by the Liquidity Provider on such date) on such date, and

(y) the maximum amount of the Purchase Price of such Bonds representing the principal amount of the Tendered Bonds purchased on such Bank Purchase Date which the Liquidity Provider agrees to provide under the Liquidity Facility will be the Available Principal Commitment, as such amount may be reduced under the Liquidity Facility.

Interest Component of Purchased Bonds. The aggregate amount of the Purchase Price comprising interest on the Bonds (the "Interest Component") purchased on the Bank Purchase Date will not exceed the lesser of

(i) the Available Interest Commitment on such date, and

(ii) the actual aggregate amount of interest accrued on each such Bond, to but excluding such Bank Purchase Date;

provided that if the applicable Bank Purchase Date occurs after the Record Date applicable to the interest accrued on such Bond from the last occurring Interest Payment Date, then the amount described in this clause (ii) will not include such accrued and unpaid interest; provided further that in no event will the Liquidity Provider be obligated to extend credit for the payment of the Purchase Price of such Bonds representing accrued interest on such Bonds in excess of the Available Interest Commitment as such amount may be reduced under the Liquidity Facility.

Effect of Purchase. Any Bonds so purchased will constitute Bank Bonds and will, from the date of such purchase and while they are Bank Bonds, bear interest and have other characteristics of Bank Bonds as set forth in the Liquidity Facility and in the Trust Agreement and the Resolution. All purchases of Bonds by the Liquidity Provider pursuant to this Agreement will be made by the Liquidity Provider in immediately available funds with its own funds.

Events of Termination. Each of the following events constitutes an "Event of Termination" under the Liquidity Facility:

(a) any principal or interest due on the Bonds is not paid by the City when due and such principal or interest is not paid by the Insurer when, as, and in the amounts required to be paid under a Financial Guaranty Insurance Policy; or

(b) (i) any material provision of each Financial Guaranty Insurance Policy at any time for any reason ceases to be valid and binding on the Insurer in accordance with the terms of each Financial Guaranty Insurance Policy or is declared to be null and void by a court or other governmental agency of appropriate jurisdiction; (ii) the validity or enforceability of a Financial Guaranty Insurance Policy is contested by the Insurer in writing or any governmental agency or authority, or the Insurer, by an Executive Vice President or more senior official, denies in writing that it has any or further liability or obligation under a Financial Guaranty Insurance Policy or the Insurer attempts to rescind or revoke a Financial Guaranty Insurance Policy; or (iii)(x) a proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to the Insurer or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) and (y) such proceeding is not terminated for a period of thirty (30) consecutive days or (z) such court enters an order granting the relief sought in such proceeding or the Insurer institutes or takes any corporate action for the purpose of instituting any such proceeding; or

(c) (i) the Insurer admits in writing its inability to pay its Indebtedness as they mature or (ii) the Insurer becomes the subject of a proceeding under Article 74 of New York Insurance Law (or any successor provision), or makes a general assignment for the benefit of creditors, or fails generally to pay its debts or claims as they become due, or takes any corporate action in furtherance of any of the foregoing; or

(d) any representation or warranty made by the City under or in connection with the Liquidity Facility or any of the Related Documents proves to be untrue in any material respect on the date as of which it was made; or

(e) nonpayment of any fees payable under the Liquidity Facility (together with interest thereon at the rate required under the Liquidity Facility) within ten (10) Business Days after the City, the Treasurer and the Insurer have received written notice from the Liquidity Provider that they were not paid when due if such amount has not subsequently been received from the City or another party; or

(f) nonpayment of any other fees, or any other amount when due under the Liquidity Facility (together with interest thereon at the rate required under the Liquidity Facility), if such failure to pay when due continues for ten (10) Business Days after written notice thereon to the City, the Treasurer and the Insurer by the Liquidity Provider; or

(g) the breach by the City of any of the terms or provisions of certain of its covenants made under the Liquidity Facility; or

(h) the breach by the City of any of the other terms or provisions of the Liquidity Facility which is not remedied within thirty (30) days after written notice thereof is received by the City, the Treasurer and the Insurer from the Liquidity Provider; provided that so long as the City is proceeding with due diligence to remedy any default in the due performance or observance of such terms or provisions which, if begun and prosecuted with due diligence, cannot be completed within a period of thirty (30) days, then such 30-day period will be extended to the extent necessary to enable the City to begin and complete the remedying of such default through the exercise of due diligence; or

(i) the City Documents terminate or cease to be of full force and effect, other than as a result of any redemption in full of the Bonds or provision for such redemption in full in accordance with the City Documents; or

(j) an Insurer Adverse Change occurs at any time; or

(k) the Liquidity Facility or any Related Document (other than with respect to the Financial Guaranty Insurance Policies as contemplated in subsection (b) above) or any material provision thereof for any reason terminates or ceases to be valid and binding on the City, as the case may be, or in full force and effect (other than in the case of the City Documents, as a result of any redemption in full of the Bonds or provision for such redemption in full in accordance with the City Documents) or be declared to be null and void by a final non-appealable judgment of a court of competent jurisdiction, or the validity or enforceability of any such document or provision is contested by the City, or the City denies that it has any or further liability or obligation under the Liquidity Facility or any Related Document; or

(l) the City becomes insolvent or admits in writing its inability to pay its Indebtedness as it matures or declares a moratorium on the payment of its Indebtedness or applies for, consent to or acquiesce in the appointment of a trustee, custodian, liquidator or receiver for itself or any substantial part of its property, or takes any action to authorize or effect any of the foregoing; or in the absence of any such application, consent or acquiescence, a trustee, custodian, liquidator or receiver is appointed for it or for a substantial part of its property or revenues and is not discharged within a period of sixty (60) days; or any bankruptcy, reorganization, debt arrangement or other proceeding under any bankruptcy or insolvency law or any dissolution or liquidation proceeding is instituted by or against the City (or any action is taken to authorize or effect the institution by it of any of the foregoing) and if instituted against it, is consented to or acquiesced in by it, or is not dismissed within a period of sixty (60) days; or

(m) the City defaults in the due performance or observance of any material term, covenant or agreement contained in any other Related Document to which it is a party and the same is not cured within any applicable cure period; or

(n) the interest on the Bonds is determined to be includable in the gross income of the owners thereof for federal income tax purposes as evidenced by a notice delivered to the Treasurer or the City by the Internal Revenue Service or a final nonappealable judgment of a court of competent jurisdiction to such effect; or

(o) the occurrence of any "Event of Default" as that term is defined in the City Documents which is not otherwise described in the Liquidity Facility.

Effect of Termination. IN THE CASE OF CERTAIN EVENTS OF DEFAULT DESCRIBED ABOVE, THE AVAILABLE COMMITMENT FOR ALL BONDS AND THE OBLIGATION OF THE LIQUIDITY PROVIDER TO PURCHASE TENDERED BONDS WILL IMMEDIATELY TERMINATE WITHOUT NOTICE OR DEMAND, AND THEREAFTER THE LIQUIDITY PROVIDER WILL BE UNDER NO OBLIGATION TO PURCHASE TENDERED BONDS.

(1) In the case of an Event of Termination described in subsection (a) or (c) above, the Available Commitment and the obligations of the Liquidity Provider to purchase Bonds will immediately terminate without notice or demand, and thereafter the Liquidity Provider will be under no obligation to purchase Bonds, whereupon all accrued and unpaid principal, interest and fees due under the Liquidity Facility, if any, and all other amounts owed by the City under the Liquidity Facility will become immediately due and payable. Promptly after the Liquidity Provider receives written notice of such Event of Termination, the Liquidity Provider will give written notice of the same to the Treasurer, the City, the Insurer and the Remarketing Agent; provided, that the Liquidity Provider will not incur any liability or responsibility whatsoever by reason of its failure to give such notice, and such failure will in no way affect the termination of the Available Commitment and of its obligation to purchase Bonds under the Liquidity Facility.

(2) In the case of an Event of Termination described in subsection (e) or (j) above, the Liquidity Provider may terminate the Available Commitment, such termination to be effected by the Liquidity Provider by giving written notice of such Event of Termination (a "Notice of Termination") to the City, the Remarketing Agent, the Treasurer, and the Insurer, specifying the date on which the Available Commitment will terminate (the "Termination Date") and directing the Treasurer to cause a mandatory tender with respect to the Bonds, which will be not less than thirty (30) days from the date of receipt of such notice by the Treasurer with respect to an Event of Termination described in subsection (e) and not less than forty-five (45) days from the date of receipt of such notice by the Treasurer with respect to an Event of Termination specified in subsection (j), and on and after the Termination Date the Liquidity Provider will be under no further obligation to purchase Bonds other than Bonds which are the subject of a Notice of Bank Purchase under the Liquidity Facility received by the Liquidity Provider prior to the Termination Date, and the City will immediately, upon written request of the Liquidity Provider, use its best efforts to convert all of the Bonds to Bonds bearing interest at a Fixed Rate or an Applicable ARS Rate in accordance with the City Documents. The Liquidity Provider will notify the Insurer immediately upon the occurrence of an Event of Termination described in subsection (e) and (j) above.

(3) In the case of an Event of Termination described in subsection (b) above, the obligations of the Liquidity Provider to purchase Bonds under the Liquidity Facility will be

immediately suspended, without notice or demand to any Person, until a final nonappealable order of a court having jurisdiction in the premises is entered declaring that all material contested provisions of a Financial Guaranty Insurance Policy are upheld in their entirety. If such order is entered declaring any material provision of a Financial Guaranty Insurance Policy null and void, or declaring that the Insurer does not have any further liability or obligation under such Financial Guaranty Insurance Policy, then the Liquidity Provider's obligation to purchase Bonds under the Liquidity Facility will immediately terminate. Notwithstanding the foregoing, if, upon the earlier of the Purchase Termination Date or the date which is two years after the effective date of suspension of the Liquidity Provider's obligations under this provision, litigation is still pending and a judgment regarding the validity of a Financial Guaranty Insurance Policy as is the subject of such Event of Termination has not been obtained, then (i) the Available Commitment and the obligation of the Liquidity Provider to purchase Bonds will at such time terminate without notice or demand and, thereafter, the Liquidity Provider will be under no obligation to purchase Bonds, and (ii) the City will immediately, upon written notice from the Liquidity Provider, use its best efforts to convert all of the Bonds to Bonds bearing interest at a Fixed Rate or an Applicable ARS Rate in accordance with the City Documents.

(4) Upon the occurrence of a Potential Termination Event described in subsection (c) above, the obligations of the Liquidity Provider to purchase Bonds under the Liquidity Facility will be immediately suspended without notice or demand, and such suspension will thereafter be effective until the case or proceeding referred to in subsection (c) above is terminated. If such case or proceeding is terminated, the obligations of the Liquidity Provider to purchase Bonds under the Liquidity Facility will be reinstated and the terms of the Liquidity Facility will continue in full force and effect (unless the Available Commitment otherwise terminates) as if there had been no suspension.

(5) In addition to the rights and remedies described in subsections (1), (2), (3) and (4) above, in the case of any Event of Termination specified in the Liquidity Facility, upon the election of the Liquidity Provider: (i) all amounts payable under the Liquidity Facility (other than payments of principal and interest on Bank Bonds or payments of any Deferred Interest Amounts) will upon notice to the City, the Treasurer and the Insurer become immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the City; and/or (ii) the Liquidity Provider will have all the rights and remedies available to it under the Liquidity Facility, the Related Documents, the Bond Insurance Policy or otherwise pursuant to law or equity; provided, however, the Liquidity Provider will not have the right to terminate or suspend during the Bank Purchase Period the Available Commitment or its obligations to purchase Bonds other than as described in subsections (1), (2), (3) and (4) above.

Term of the Liquidity Facility. The term of the Liquidity Facility will be until the later of (a) the last day of the Bank Purchase Period (as it may be extended under the Liquidity Facility, as described below) or (b) the payment in full of the principal of and interest on all Bonds purchased by the Liquidity Provider under the Liquidity Facility and all other amounts owing to the Liquidity Provider under the Liquidity Facility (including Deferred Interest Amounts).

Extension of Bank Purchase Period. Starting on the fourth anniversary of the Closing Date, and on each anniversary thereafter, with the prior written consent of the Insurer, the City may request the Liquidity Provider to review and consider extending the then current Stated Expiration Date for a period of one year (the period from the preceding Stated Expiration Date to such new Stated Expiration Date being herein sometimes called the "Extended Bank Purchase Period").

The Liquidity Provider's decision on whether or not to extend the then current Stated Expiration Date may be based on various factors, including without limitation the financial condition of the City, except that such decision will be made by the Liquidity Provider in its sole and absolute discretion and no course of dealing or other circumstance will require the Liquidity Provider to extend the Stated Expiration Date.

The Liquidity Provider will give written notice of the election by the Liquidity Provider to extend to the City, the Treasurer, the Insurer and the Remarketing Agent. If the Liquidity Provider does not so notify the City, the Stated Expiration Date will not be extended. At the time of any extension, the Liquidity Provider may, in its sole discretion as a condition to such extension, and subject to the consent of the Insurer and the City, require changes in the terms and conditions of the Liquidity Facility, including the unused fees and the interest rate applicable to Bank Bonds.

Reduction or Termination of Available Commitment.

Mandatory Reduction of Commitment. Upon any redemption, repayment or other payment under the City Documents of all or any portion of the principal amount of the Eligible Bonds (other than Bank Bonds) so that such Bonds cease to be Outstanding under the City Documents, the Available Principal Commitment of the Liquidity Provider will automatically be reduced by the principal amount of such Bonds so redeemed, repaid or otherwise deemed paid, and the Available Interest Commitment will also be simultaneously reduced as provided in the definition thereof under the Liquidity Facility.

The Trustee will notify the Liquidity Provider within five (5) Business Days of such redemption, repayment or other payment.

Voluntary Termination or Reduction of Available Commitment. The City, with the consent of the Insurer so long as a Financial Guaranty Insurance Policy is in effect, may at any time terminate or reduce the Available Commitment in whole by giving the Liquidity Provider not less than sixty (60) days' prior notice in writing to such effect; provided that:

(1) the provider of a Substitute Liquidity Facility, if any, is acceptable to the Insurer and agrees, in a manner acceptable to the Bank, to purchase on the Substitution Date any Bank Bonds, not otherwise remarketed, held by or on behalf of the Liquidity Provider or a Liquidity Provider Bondholder at a purchase price equal to the principal amount of such Bank Bonds plus accrued interest and plus Deferred Interest Amounts thereon at the date of purchase of such Bank Bonds, and

(2) at the date of such purchase, the City and/or such provider pay all the amounts owing to the Liquidity Provider under the Liquidity Facility (including accrued and unpaid Deferred Interest Amounts and interest thereon).

The Available Commitment will automatically terminate upon expiration of the Bank Purchase Period and on the date of such termination, the City will pay or cause the Substitute Liquidity Provider, if any, to pay the amounts owing to the Liquidity Provider under the Liquidity Facility (including accrued and unpaid Deferred Interest Amounts and interest thereon).

Maintaining the Liquidity Facility

Under the Trust Agreement, the City will agree that at any time when a Series of Bonds are in the Daily Mode, Weekly Mode or Term Mode, it will maintain a Liquidity Facility in an amount equal to the Required Stated Amount with respect to that Series of Bonds in the Daily Mode, Weekly Mode or Term Mode then Outstanding (other than Bank Bonds).

The City will not voluntarily terminate a Liquidity Facility then in effect without either: (i) providing for an Alternate Liquidity Facility or Self Liquidity acceptable to the Credit Providers prior to the effective date of the termination; or (ii) converting the Daily Rate, Weekly Rate or Term Rate to a Fixed Rate or Auction Rate Securities. If Bonds in the Daily Mode, Weekly Mode or Term Mode are then Outstanding, the Trustee may not release the applicable Liquidity Facility until it has received the Alternate Liquidity Facility, or the provisions for Self-Liquidity described below have been satisfied. See "GENERAL BOND TERMS – Mandatory Tender for Purchase" for further information on the Liquidity Facility.

Substitution of Alternate Liquidity Facility or Self Liquidity

Under the Trust Agreement, the City may substitute an Alternate Liquidity Facility or Self Liquidity for an existing Liquidity Facility under the following conditions.

Notice of Substitution. Under the Trust Agreement, the City must give written notice of its intention to terminate a Liquidity Facility and exercise its option to provide an Alternate Liquidity Facility or Self-Liquidity to the Trustee, the applicable Remarketing Agent and the Credit Provider of the Credit Facility for such Series of the Bonds at least forty-five (45) days before the proposed termination date of such Liquidity Facility and the effective date of such Alternate Liquidity Facility or Self-Liquidity, and the Trustee will mail notice of such intention pursuant to the Trust Agreement. The City will provide notice of any expiration, termination, extension or substitution of a Liquidity Facility to the Rating Agencies.

Substitution of Self Liquidity. The City may terminate or allow the expiration of any existing Liquidity Facility and make its own arrangements for purchase of any Bonds subject to tender for purchase (the "Self-Liquidity"), if the Trustee has received the following:

(a) the consent of the Credit Provider,

(b) confirmation that S&P, Fitch or Moody's will provide its highest short-term rating on such Series of the Bonds,

(c) an Opinion of Bond Counsel as to the validity of such Self-Liquidity, and

(d) payment of all amounts due to the Liquidity Provider of the expiring or terminating Liquidity Facility.

Provision of Self-Liquidity is subject to the same mandatory tender and notice procedures provided above for an Alternate Liquidity Facility, including mandatory tender for purchase, concurrently with the first day of such Self-Liquidity. While Self-Liquidity is in effect for a Series of the Bonds, all references to draws on the Liquidity Facility for that Series will instead be deemed to mean payments by the City, and all references to the Liquidity Provider will be of no effect.

SECURITY FOR THE BONDS

General

Bonds Payable from Property Taxes. The Bonds are secured solely by and payable from *ad valorem* property taxes levied for the Bonds under the Ordinance and disbursed under the Trust Agreement, and from certain other legally available funds. The Board has the power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) in an amount sufficient for the payment of the principal of and interest on the Bonds.

For a general discussion of the City's overall organization, finances and economic information, see "APPENDIX A – CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES" and "APPENDIX B – CITY AND COUNTY OF SAN FRANCISCO – ECONOMY AND GENERAL INFORMATION."

Bond Insurance. The scheduled payment of principal and interest on each Series of Bonds when due will be guaranteed under three separate financial guaranty insurance policies to be issued concurrently with the delivery of the Bonds by the Credit Provider. See "FINANCIAL GUARANTY INSURANCE."

Determination of Ad Valorem Tax Rate

The annual tax rate will be based on the assessed value of taxable property in the City and the estimated debt service on the Bonds and other outstanding general obligation bonds of the City in each year. Fluctuations in the annual debt service on the Bonds, and in the assessed value of taxable property in the City, may cause the annual tax rate for the Bonds to fluctuate. Economic and other factors beyond the City's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, including, without limitation, earthquake, flood, toxic dumping, and similar events or occurrences, could cause a reduction in the assessed value of taxable property within the City and necessitate a corresponding increase in the annual tax rate. See "APPENDIX A – CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – Assessed Valuations, Tax Rates and Tax Delinquencies" for information on the City's tax base, tax collection system, and property tax revenues.

Taxation of State-Assessed Utility Property

A portion of the City's total net assessed valuation consists of utility property subject to assessment by the State Board of Equalization (the "SBE"). See Table A-5 "Principal Property Taxpayers, Fiscal Year Ended June 30, 2005," set forth in "APPENDIX A – CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES." State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other State-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City itself) according to statutory formulae generally based on the distribution of taxes in the prior year.

Ongoing changes in the California electric utility industry structure and in the way in which components of the industry are owned and regulated, including the sale of electric generation assets to largely unregulated, non-utility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The City is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets, or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the City.

See "APPENDIX A – CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – Assessed Valuations, Tax Rates and Tax Delinquencies" and Table A-5, captioned "CITY AND COUNTY OF SAN FRANCISCO, Principal Property Taxpayers, Fiscal Year Ending June 30, 2004."

Use of Other Available Funds to Pay Debt Service

Under the Trust Agreement, the City may also transfer certain "Tobacco Revenues" to pay or redeem the Bonds. The Trust Agreement defines "Tobacco Revenues" as amounts the City receives, if any, under the master settlement agreement dated November 23, 1998 (the "Master Settlement Agreement"), by and among the Attorneys General and other representatives of 46 states of the United States (including California) Puerto Rico, the U.S. Virgin Islands, American Samoa, the Northern Mariana Islands, Guam, the District of Columbia and five tobacco manufacturers (Brown & Williamson Tobacco Corporation, Lorillard Tobacco Company, Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Commonwealth Tobacco, and Liggett & Myers).

Under Proposition A the City is required to "reduce the property tax impact" of the Bonds "by requiring the application of available tobacco settlement revenues received by the City and County." The ordinance authorizing the election that approved Proposition A provides as follows:

> The first $100,000,000 of available tobacco settlement revenues and/or any state and/or federal funds or grants received by the City and County that are required to be used to fund the Project shall first be applied to finance the costs of acquisition, construction and/or reconstruction of the Project. Any additional amounts from such sources received by the City and County shall be applied to reduce the amount of the outstanding obligations authorized hereby.
>
> "Available tobacco settlement revenues" is defined as the total payments the City and County receives under the 1998 Master Settlement Agreement (the 'Agreement') over the term of any lease financing, bonded debt and/or other evidences of indebtedness authorized hereby that the City and County may use for the Project under applicable law, less $1,000,000 of the amount the City and County receives each year under the Agreement during the term of any obligations authorized hereby, which amount the City and County will use for tobacco education, prevention and control purposes.

However, no assurance can be given that the City will receive any additional funds under the Master Settlement Agreement, or if any such additional funds are received, that they will be sufficient to result in "available tobacco settlement revenues" within the meaning of Proposition A. Factors that could reduce or eliminate altogether the City's share of revenues under the Master Settlement Agreement include, among others, the following: termination of the Master Settlement Agreement (to which the City is not a party); permitted reductions in, disputes about or recalculations of the amounts payable under the Master Settlement Agreement; a continuing decline in nationwide cigarette consumption; increased or additional regulation of the tobacco industry, public smoking, or the labeling or advertising of cigarettes; a material loss of market share by the tobacco manufacturers who are parties to the Master

Settlement Agreement; and a decline in the City's population relative to other participating jurisdictions under the Master Settlement Agreement.

Consequently, no assurance can be given that any tobacco settlement revenues will become available to pay or contribute to the payment of debt service on or redemption of any of the Bonds.

For a discussion of certain litigation with respect to Tobacco Revenues, see "LITIGATION - Lawsuit Related to the Use of Tobacco Revenues" below.

Outstanding Indebtedness

Issuance of general obligation bonds of the City is limited under Section 9.106 of the City Charter to 3% of the assessed value of all real and personal property within the City's boundaries which is subject to City taxes. Under this provision of the Charter, the City's general obligation debt limit for Fiscal Year 2004-05 is $3,134,138,636, based on a net assessed valuation of $104,471,287,868. As of April 30, 2005, the City had outstanding $921,625,000 aggregate principal amount of general obligation bonds, which equals 0.88% of the net assessed valuation for fiscal year 2004-05. Of that amount, $400,000 is to be repaid from enterprise revenues and is not carried on the City's property tax roll. As of April 30, 2005, the City had voter approval to issue up to $795,185,000 in aggregate principal amount of new general obligation bonds (including the Bonds offered by this Official Statement). See "APPENDIX A – CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – Statement of Direct and Overlapping Bonded Debt" and "– Tax Supported Debt Service."

The City has also entered into a number of long term lease obligations secured by revenues of the General Fund represented by lease revenue bonds and certificates of participation. As of April 30, 2005, the aggregate amount of principal payments and the total amount of payments due on outstanding lease obligations through fiscal year 2034-35 was $701,504,998 and $1,184,607,921, respectively. See "APPENDIX A – CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – Lease Payments and Other Long-Term Obligations."

FINANCIAL GUARANTY INSURANCE

The following information has been furnished by MBIA Insurance Corporation (the "Credit Provider" or "MBIA") for use in this Official Statement. Capitalized terms used in this section have the meanings defined in this section, and may be different than the capitalized terms used elsewhere in this Official Statement. A specimen of the Credit Provider's Financial Guaranty Insurance Policies is attached as APPENDIX H.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the financial guaranty insurance policies and MBIA set forth under this heading "FINANCIAL GUARANTY INSURANCE." Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The MBIA Insurance Corporation Insurance Policies

Each of MBIA's policies unconditionally and irrevocably guarantee the full and complete payment required to be made by or on behalf of the City to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the related Series of Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policies shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the related Series of Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policies do not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policies do not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policies also do not insure against nonpayment of principal of or interest on any Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Trustee or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

Each of MBIA's policies issued for the Bonds has been endorsed to provide for cancellation of such policy upon delivery of a substitute policy to the Trustee in accordance with the terms of the Trust Agreement. Each of MBIA's policies will, however, remain in effect with respect to claims for Preferences resulting from payments made prior to the effective date of cancellation of such policy.

MBIA Insurance Corporation

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2004, MBIA had admitted assets of $10.4 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2005 MBIA had admitted assets of $10.6 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.6 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2005 and for the three month periods ended March 31, 2005 and March 31, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2005, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2005) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

INVESTOR CONSIDERATIONS

The following are certain investment considerations and other factors that should be carefully considered by prospective purchasers of the Bonds. The following list should not be considered to be exhaustive and has been prepared by the City within the context of this Official Statement. Other investment considerations and risks attendant to the Bonds that are material to an investment decision with respect to the Bonds are described or apparent elsewhere in this Official Statement.

Prospective Calculation of Annual Property Tax Levy

The Board has the power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) in an amount sufficient for the payment of the principal of and interest on the Bonds (and other outstanding general obligation bonds of the City). The levy is established in August of each year for the ensuing year. The annual tax rate will be based on the assessed value of taxable property in the City and the estimated debt service on the Bonds and other outstanding general obligation bonds of the City. See "SECURITY FOR THE BONDS."

Debt service on the Bonds will fluctuate during the course of the year. In order to determine the annual levy to pay debt service on any outstanding series of Bonds, the City plans to estimate such debt service based on historical variable rate indices, an analysis of then-current market conditions and a projection of debt service payable over the course of such fiscal year. This estimate may also take into account any "available tobacco settlement revenues" which may be applied in such fiscal year to pay all or a portion of the principal and interest on the Bonds. See "SECURITY FOR THE BONDS – Use of Other Available Funds to Pay Debt Service." The City anticipates that this methodology will result in its ability to provide for all payments of debt service on outstanding Bonds in each fiscal year.

It is possible that over the course of a given year the interest rates on the outstanding Bonds could exceed the estimate used for the purpose of setting the tax levy and a shortfall could occur in the revenues available for repayment of the Bonds. The City would be obligated to make up such shortfall in the next subsequent tax levy, which would be set to provide for the payment of the previous year's debt service shortfall. Prior to the subsequent year's property tax levy the City could provide for a separate appropriation or transfer of funds to address the shortfall but it would not be obligated to do so.

Investment of Funds

The Trustee is required to invest all moneys in any of the funds and accounts (other than the Rebate Fund or Liquidity Facility Account or remarketing proceeds) established and held by the Trustee under the Trust Agreement solely in "Permitted Investments" (as defined in the Trust Agreement). See "APPENDIX D – Summary of Master Trust Agreement." The City invests its moneys pursuant to investment policies adopted from time to time by the Board. See "APPENDIX A – City and County of San Francisco – Organization and Finances" and "APPENDIX C – Excerpts from Comprehensive Annual Financial Report of the City and County of San Francisco for the Year Ended June 30, 2004."

All investments, including the Permitted Investments and other investments made by the City, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Trust Agreement or by the City could have a material adverse effect on the security for the Bonds.

Tax-Exempt Status of Interest on the Bonds

The Internal Revenue Code of 1986, as amended (the "Code"), imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Bond proceeds, limitations on the investment earnings of Bond proceeds prior to expenditure, a requirement that certain investment earnings on Bond proceeds be paid periodically to the United States and a requirement that issuers file an information report with the Internal Revenue Service. The City will covenant in the Trust Agreement and other documents executed in connection with the issuance of the Bonds that it will comply with such requirements. Failure by the City to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance of the Bonds.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

Principal of and interest on the Bonds are secured solely by and are payable from the proceeds of an *ad valorem* tax levied by the City for the payment thereof. (See "SECURITY FOR THE BONDS.") Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limit the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. With respect to the City's general obligation bonds, the State Constitution, the Charter and the Ordinance impose a duty on the Board to levy a property tax sufficient to pay debt service coming due in each year. The City has pledged such taxes as security for payment of the City's general obligation bonds, including the Bonds. The legislative power of the State cannot be used to reduce or repeal the authority for such levy, the obligation to levy such taxes, or to otherwise interfere with performance of the duties of the City with respect to such taxes. While not affecting the City's general obligation bonds, however, these constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the City's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future. A summary of the currently effective limitations is set forth below.

Article XIII A of the California Constitution

Proposition 13. Article XIII A, known as Proposition 13, was approved by the California voters in June of 1978. It limits the amount of ad valorem tax on real property to 1% of "full cash value," as determined by the county assessor. Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment period. Furthermore, all real property valuation may be increased to reflect the inflation rate, as shown by the consumer price index, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978, (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or (3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be assessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII B of the California Constitution

Article XIII B of the California Constitution limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the governmental entity. However, no limit is imposed on the appropriation of local revenues and taxes to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the next two years.

See "APPENDIX C – EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2004" for information on the City's appropriations limit.

Articles XIII C and XIII D of the California Constitution

Proposition 218, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes on voter-approved debt, such as the Bonds, once such debt has been approved by the voters. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval either have been reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to deal with fiscal problems by raising revenue through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

In addition, Article XIII C addresses the initiative power in matters of local taxes, assessments, fees and charges. Pursuant to Article XIII C, the voters of the City could, by initiative, repeal, reduce or limit any existing or future local tax, assessment, fee or charge, subject to certain limitations imposed by the courts and additional limitations with respect to taxes levied to repay bonds. The City raises a substantial portion of its revenues from various local taxes which are not levied to repay bonded indebtedness and which could be reduced by initiative under Article XIII C. No assurance can be given that the voters of the City will not approve initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges. However, the initiative powers granted by Article XIII C could not be utilized by voters to reduce any tax levied to pay principal and interest on voter-approved indebtedness, such as the Bonds. See "APPENDIX A – CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – Other City Tax Revenues" for a discussion of other City taxes that could be affected by Proposition 218.

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIII D) for local services and programs. The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

Statutory Limitations

On November 4, 1986, California voters adopted Proposition 62, an initiative statute that, among other matters, requires (i) that any new or increased general purpose tax be approved by a two-thirds vote of the local governmental entity's legislative body and by a majority vote of the voters, (ii) that any new or increased special purpose tax be approved by a two-thirds vote of the voters.

In *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara* decision"), the California Supreme Court upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a "special tax" as required by Proposition 62. The *Santa Clara* decision did not address the question of whether it should be applied retroactively. In *McBrearty v. City of Brawley* (1997) 59 Cal. App. 4th 1441, the Fourth District Court of Appeal concluded that the *Santa Clara* decision is to be applied retroactively to require voter approval of taxes enacted after the adoption of Proposition 62 but before the *Santa Clara* decision.

The *Santa Clara* decision also did not decide, and the California Supreme Court has not otherwise decided, whether Proposition 62 applies to charter cities. The City is a charter city. Cases decided by the California Court of Appeals have held that the voter approval requirements of Proposition 62 do not apply to certain taxes imposed by charter cities. See *Fielder v. City of Los Angeles* (1993) 14 Cal. App. 4th 137 and *Fisher v. County of Alameda* (1993) 20 Cal. App. 4th 120.

Proposition 62 as an initiative statute does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. Since it is a statute, Proposition 62 is subordinate to the authority of charter cities, derived from the state constitution, to impose taxes. Proposition 218, however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State Constitution. For a discussion of taxes affected by Proposition 218 see "Articles XIII C and XIII D of the California Constitution" above.

Even if a court were to conclude that Proposition 62 applies to charter cities, the City's exposure would be insignificant. Proposition 62 contains provisions that apply to taxes imposed on or after August 1, 1985. Since August 1, 1985, the City has collected taxes on businesses, hotel occupancy, utility use, parking, property transfer, stadium admissions and vehicle rentals. Only the hotel and stadium admissions taxes have been increased since that date. The increases in these taxes were ratified by the voters on November 3, 1998 pursuant to a requirement in Proposition 218. With the exception of the vehicle rental tax, the City continues to collect all of the taxes listed above. Since the remaining taxes were adopted prior to August 1, 1985, and have not been increased, such taxes would not be subject to Proposition 62 even if Proposition 62 applied to a charter city. No court decision regarding the applicability of Proposition 62 to the City would impact the obligation of the City to levy *ad valorem* property taxes to pay debt service on the Bonds. See "APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES – Other City Tax Revenues."

Proposition 1A

Proposition 1A, proposed by the Legislature in connection with the State's Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal

Year 2006-07, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the VLF rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the City.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

TAX MATTERS

Opinion of Co-Bond Counsel. In the opinion of Hawkins Delafield & Wood LLP, San Francisco, and Leslie M. Lava, Esq., Sausalito, California, Co-Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering their opinion, Co-Bond Counsel have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the Bonds, and Co-Bond Counsel have assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Co-Bond Counsel to the City, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Co-Bond Counsel express no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Co-Bond Counsel render their opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update their opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Co-Bond Counsel express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Legislation

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Bonds will not have an adverse effect on the tax exempt status or market price of the Bonds.

LEGAL OPINIONS

The validity of the issuance of the Bonds under California law is subject to the approval of Hawkins Delafield & Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., Sausalito, California, Co-Bond Counsel to the City. The proposed form of the legal opinion of Co-Bond Counsel is attached hereto as APPENDIX G. Co-Bond Counsel undertake no responsibility for the accuracy, completeness, or fairness of this Official Statement.

Certain legal matters will be passed upon for the Underwriters by Jones Hall, A Professional Law Corporation, San Francisco, California, and Lofton & Jennings, San Francisco, California, as Underwriters' Co-Counsel, for the Credit Provider by Kutak Rock LLP, Irvine, California, and for the Liquidity Provider by Sidley Austin Brown & Wood LLP, Los Angeles, California.

PROFESSIONALS INVOLVED IN THE OFFERING

Public Financial Management, San Francisco, California, and Kitahata & Company, San Francisco, California, have served as Co-Financial Advisors to the City with respect to the sale of the Bonds. The Co-Financial Advisors have assisted the City in the review of this Official Statement and in other matters relating to the planning, structuring, and sale of the Bonds. The Co-Financial Advisors have not independently verified any of the data contained herein nor conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement and assume no responsibility for the accuracy or completeness of any of the information contained herein. The Co-Financial Advisors will receive compensation from the City contingent upon the sale and delivery of the Bonds.

Co-Bond Counsel and Underwriters' Co-Counsel will also receive compensation contingent upon the sale and delivery of the Bonds.

Deutsche Bank National Trust Company is acting as Co-Trustee, Registrar and Tender Agent with respect to the Bonds, and will also receive compensation from the contingent upon the sale and delivery of the Bonds.

LITIGATION

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Bonds, the corporate existence of the City, or the entitlement to their respective offices of the officers of the City who will execute and deliver the Bonds and other documents and certificates in connection therewith. The City will furnish to the initial purchaser or purchasers of the Bonds a certificate of the City as to the foregoing as of the time of the original delivery of the Bonds.

Lawsuit Regarding Use of Tobacco Revenues

On July 15, 2003 the Board adopted, and on July 25, 2003, the City's Mayor approved, Ordinance No. 191-03, which among other things provided for the transfer of approximately $25 million of Tobacco Revenues received prior to the first issuance of Proposition A bonds to pay Department of Public Health operating costs. The adoption of Ordinance 191-03 was predicated upon the analysis that Tobacco Revenues received by the City prior to bond issuance do not fall within the definition of "available tobacco settlement revenues" under Proposition A because such revenues were not received over the term of any Proposition A bonds.

On December 9, 2003 the Board adopted, and on December 12, 2003 the City's Mayor approved, Resolution 789-03, which approved the settlement of an unlitigated claim of Louise Renne, former City Attorney, and others regarding the Tobacco Revenues transfer authorized under Ordinance No. 191-03. The claimants agreed to release any claims they might file regarding the matter and covenanted not to sue or join in any lawsuit regarding the transfer. In return the City agreed, among other matters, to provide up to $25 million to purchase certain furniture, fixtures and equipment for the Project upon its completion, as the cost of such items would not be payable from Proposition A bond funds. In settling this unlitigated claim the City maintained its position that Ordinance 191-03 is consistent with the terms of Proposition A.

On November 23, 2004, Sean Patrick Monette-Shaw filed a petition for a writ of mandamus in San Francisco Superior Court. Mr. Monette-Shaw's petition sought the return of the Tobacco Revenues transferred pursuant to Ordinance 191-03, as well as a court order requiring the City to build a 1,200-bed long-term care facility to replace Laguna Honda Hospital. On April 4, 2005, the Superior Court denied Mr. Monette-Shaw's petition for a writ of mandate with prejudice, and entered a judgment for the City. On May 3, 2005 Mr. Monette-Shaw filed an appeal of the Superior Court's decision with the California Court of Appeal The City Attorney will continue to vigorously defend this lawsuit, and the City does not believe that the lawsuit will adversely impact the security for or validity of the Bonds.

RATINGS

Moody’s Investors Service ("Moody’s") is expected to assign the Bonds a long-term rating of “Aaa” and a short-term rating of “VMIG-1,” Standard & Poor’s Rating Services, ("S&P") is expected to assign the Bonds a long-term rating of “AAA” and a short-term rating of “A-1+,” and Fitch Ratings ("Fitch") is expected to assign the Bonds a long-term rating of “AAA” and a short-term rating of “F1+,”in each case based upon the issuance by the Credit Provider of a financial guaranty insurance policy with respect to each Series of Bonds at the time of delivery of the Bonds, and upon the issuance of the Liquidity Facility by the Liquidity Provider at the time of delivery of the Bonds.

In addition, Moody’s has assigned the Bonds an underlying rating of “Aa3,” S&P has assigned the Bonds an underlying rating of “AA,” and Fitch has assigned the Bonds an underlying rating of "AA-.”

Certain information (some of which is not included in this Official Statement) was supplied by the City to the rating agencies to be considered in evaluating the Bonds. The ratings reflect only the views of each rating agency, and any explanation of the significance of any rating may be obtained only from the respective credit rating agencies: Moody’s, at 99 Church Street, New York, NY 10007, telephone: (212) 553-0882; S&P, at 55 Water Street, New York, NY 10041, telephone: (212) 208-1022; and Fitch, at One State Street Plaza, New York, NY 10004, telephone (212) 908-0500. No assurance can be given that any rating issued by a rating agency will be retained for any given period of time or that a rating will not be revised or withdrawn entirely by such rating agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Bonds. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

UNDERWRITING

The Series B Bonds are being purchased by Banc of America Securities LLC, which has agreed to purchase the Series B Bonds at a price of $39,767,200 (which is equal to the initial principal amount of the Bonds, less underwriter's discount of $232,800).

The Series C Bonds are being purchased by Bear, Stearns & Co. Inc., which has agreed to purchase the Series C Bonds at a price of $39,767,200 (which is equal to the initial principal amount of the Bonds, less underwriter's discount of $232,800).

The Series D Bonds are being purchased by E. J. De La Rosa & Co., Inc., which has agreed to purchase the Series D Bonds at a price of $39,767,200 (which is equal to the initial principal amount of the Bonds, less underwriter's discount of $232,800).

Each purchase contract relating to a Series of Bonds provides that the respective Underwriter will purchase all of that Series of Bonds (if any are purchased), and provides that the Underwriter’s obligation to purchase is subject to certain terms and conditions, including the approval of certain legal matters by counsel.

The Underwriters may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page hereof. The offering prices may be changed by the Underwriters.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for Fiscal Year 2004-05, which is due not later than March 27, 2006, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and the State Repository, if any. The notices of material events will be filed by the City with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board and, in either case, the State Repository, if any. The City may satisfy its obligations to file any notice, document or information with a Nationally Recognized Municipal Securities Information Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such Nationally Recognized Municipal Securities Information Repository or State Repository, to the extent permitted by the Securities and Exchange Commission. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in "APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

The City may, from time to time, but is not obligated to, post its Comprehensive Annual Financial Report and other financial information on the Controller's web site at www.sfgov.org/controller.

EXECUTION

The execution and delivery of this Official Statement have been duly authorized by the Board of the City.

CITY AND COUNTY OF SAN FRANCISCO

By: /s/ Edward Harrington
Controller

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APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO
ORGANIZATION AND FINANCES

Government and Organization

San Francisco is a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California (the "State"), the only consolidated city and county in the State. San Francisco can exercise the powers of both a city and a county under State law. On April 15, 1850, several months before California became a state, the original charter was granted to the City and County of San Francisco (the "City"). Under its original charter, the City committed itself to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. The San Francisco International Airport ("SFO"), although located fourteen miles south of downtown San Francisco in San Mateo County, is owned and operated by the City. In 1969, the City acquired the Port of San Francisco (the "Port") in trust from the State. Substantial expansions and improvements have been made to these enterprises since their respective dates of original acquisition.

In November 1995, the voters of the City approved a new charter, which went into effect in most respects on July 1, 1996 (the "Charter"). As compared to the previous charter, the Charter generally expands the roles of the Mayor and the Board of Supervisors (the "Board") in setting policy and determining budgets, while reducing the authority of the various City commissions, which are composed of appointed citizens. Under the Charter, the Mayor's appointment of commissioners is subject to approval by a two-thirds vote of the Board. The Mayor appoints department heads from nominations submitted by the commissioners.

The City has an elected Board consisting of eleven members and an elected Mayor who serves as chief executive officer, each serving a four-year term. The City Attorney, Assessor-Recorder, District Attorney, Treasurer-Tax Collector, Sheriff and Public Defender are also elected directly by the citizens. School functions are carried out by the San Francisco Unified School District and the San Francisco Community College District, each is a separate legal entity with a separately elected governing board. The Charter provides a civil service system for City employees.

Gavin Newsom was elected the 42nd Mayor of the City on December 9, 2003 and was sworn into office on January 8, 2004. Mayor Newsom had been elected to the Board three times and served on the Board from 1997 until he was elected Mayor. Mayor Newsom grew up in the San Francisco Bay Area and graduated from Santa Clara University in 1989 with a Bachelor of Arts degree in Political Science. Prior to and during his tenure on the Board, Mayor Newsom was also a successful small business owner opening his first local business, the PlumpJack Wine Shop, in 1992. Over the years, Mayor Newsom expanded his business, creating over 700 jobs in San Francisco.

Aaron Peskin, president of an environmental non-profit organization, was elected to the Board in 2000 and re-elected in November 2004. He was elected President of the Board by a majority of the Supervisors in January 2005. Tom Ammiano, former member of the Board of Education, was elected to the Board in 1994 and re-elected in 1998, 2000 and 2004. The following Supervisors were elected in November 2000: Jake McGoldrick, a college English teacher; Chris Daly, an affordable housing organizer; Sophenia (Sophie) Maxwell, an electrician; and Gerardo Sandoval, a deputy public defender. Chris Daly and Sophie Maxwell were re-elected in November 2002. Bevan Dufty, a former Congressional aide and Neighborhood Services Director of the City, and Fiona Ma, a licensed certified public accountant, were elected to four-year terms on the Board on December 10, 2002. Michela Alioto-Pier was appointed to the Board in January 2004. She previously served on the San Francisco Port Commission. Sean Elsbernd was appointed to the Board in August 2004. He previously served as liaison to the Board in the Mayor's Office, a legislative aide to the Board, and Co-Director of the Congressional Human Rights Caucus. The following Supervisors were also re-elected in November 2004: Jake McGoldrick, Michela Alioto-Pier, Sean Elsbernd and Gerardo Sandoval. Ross Mirkarimi, an investigator for the District Attorney's Office, was elected to the Board in November 2004.

Dennis J. Herrera, City Attorney, was elected to a four-year term on December 11, 2001 and assumed office on January 8, 2002. Before becoming City Attorney, Mr. Herrera was a partner in a private law firm and had served in the Clinton Administration as Chief of Staff of the U.S. Maritime Administration. He also served as president of the San Francisco Police Commission and was a member of the San Francisco Public Transportation Commission. Mr. Herrera received his law degree from George Washington University School of Law and became a member of the California Bar in 1989.

Edward M. Harrington serves as the City Controller. Mr. Harrington was appointed to a 10-year term as Controller in March 1991 by then-Mayor Art Agnos and was re-appointed to a new ten-year term in 2000, by then-Mayor Willie L. Brown, Jr. As Chief Fiscal Officer and Auditor, he monitors spending for all officers, departments and employees charged with receipt, collection or disbursement of City funds, including those in the $5.0 billion fiscal year 2004-05 budget. The Controller certifies the accuracy of budgets, receives and disburses funds, estimates the cost of ballot measures, provides payroll services for the City's employees and directs performance and financial audits of City activities. Before becoming Controller, Mr. Harrington had been the Assistant General Manager and Finance Director of the San Francisco Public Utilities Commission (the "PUC"). He was responsible for the financial activities for the Municipal Railway (public transit), Water Department and Hetch Hetchy Water and Power System. Mr. Harrington worked with the PUC from 1984 to 1991. From 1980 to 1984, Mr. Harrington was an auditor with KPMG Peat Marwick, specializing in government, non-profit and financial institution clients, and was responsible for the audit of the City and County of San Francisco. While working for KPMG, Mr. Harrington became a certified public accountant.

Jose Cisneros was appointed Treasurer-Tax Collector for the City by Mayor Newsom and was sworn in on September 8, 2004. Prior to being appointed Treasurer-Tax Collector, Mr. Cisneros served as Deputy General Manager, Capital Planning and External Affairs for the San Francisco Municipal Transportation Agency (the "MTA").

Mabel Teng was elected as the City's first Asian-American Assessor-Recorder and assumed office on January 8, 2003. Ms. Teng has resigned from this office, effective May 15, 2005. Mayor Newsom has not yet appointed her successor. Prior to becoming Assessor-Recorder, Ms. Teng was the first Asian-American woman elected to the Board, serving from 1994 to 2000. During her tenure on the Board, she chaired the Finance Committee, Rules Committee and Neighborhood Services and Housing Committee. In 1990, Ms. Teng was elected to the San Francisco City College Board of Member Trustees and was installed as the President of that board. Until 1990, Ms. Teng was a tenured faculty member of City College of San Francisco and served as Director of Development and Planning at San Francisco State University.

Under the Charter, the City Administrator (formerly the Chief Administrative Officer) is a non-elective office appointed by the Mayor for a five-year term and confirmed by the Board. On April 26, 2005, Mr. Edwin Lee was appointed by Mayor Gavin Newsom as the City Administrator. Mr. Lee currently is the Director of Public Works. He has previously worked as the City's Director of

Purchasing and as the Director of the Human Rights Commission. Mr. Lee also served as Special Advisor to the Mayor on the City's Minority/Woman/Locally owned Business Enterprise Ordinance and as Deputy Director of Employee Relations Division and coordinator for the Mayor's Family Policy Task Force.

City Budget and Finances

General

The Controller's Office is responsible for processing all payroll, accounting and budget information for the City. All payments to City employees and to parties outside the City are processed and controlled by this office. No obligation to expend City funds can be incurred without a prior certification by the Controller that sufficient revenues are or will be available in the current fiscal year to meet such obligation as it becomes due. The Controller monitors revenues throughout the fiscal year, and if actual revenues are less than estimated, the Controller may freeze department appropriations or place departments on spending "allotments" which will constrain department expenditures until estimated revenues are realized. If revenues are in excess of what was estimated, or budget surpluses are created, the Controller can certify these surplus funds as a source for supplemental appropriations that may be adopted throughout the year upon approval of the Mayor and the Board. The City's annual expenditures are often different from the estimated expenditures in the Annual Appropriation Ordinance or "budget" due to supplemental appropriations, continuing appropriations of prior years and unexpended current year funds.

Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. The Controller issues a Six-Month and Nine-Month report to apprise the City's policy makers of the current budgetary status and projected year-end revenues and expenditures. On November 1994, voters approved Proposition F. Proposition F requires the Controller, the Mayor's Budget Director and the Budget Analyst for the Board of Supervisors to issue a Three-Year Budget Projection annually to report on the City's financial condition.

Budget Process

The City's budget process begins in the middle of the preceding fiscal year as departments prepare their budgets and seek approval thereof by the various City commissions. Departmental budgets are consolidated by the Controller, and then transmitted to the Mayor no later than the first working day of March. Pursuant to the Administrative Code, the Mayor is required to submit a proposed budget for selected enterprise departments to the Board on May 1, thereby providing the Board with additional time to review departmental budgets. The Mayor is required to submit the complete (all departments) budget to the Board on June 1.

Following the June 1 submission of the Mayor's proposed budget, the Controller provides an opinion to the Board regarding the accuracy of economic assumptions underlying the revenue estimates and the reasonableness of such estimates and revisions in the proposed budget. During its budget approval process, the Board has the power to reduce or augment any appropriation in the proposed budget; provided the total budgeted appropriation amount is not greater than the budgeted appropriation amount submitted by the Mayor. The Board must adopt the "original budget" no later than the last working day of July each year.

Following the adoption of the budget, the City makes various revisions throughout the fiscal year (collectively referred to as the "revised budget"). A "final revised budget" is prepared at the end of the fiscal year reflecting the year-end's final revenue and expenditure appropriation for such fiscal

year. The Board adopted the fiscal year 2004-05 original budget (Ordinance No. 197-04) on July 27, 2004, and Mayor Newsom approved it on August 5, 2004.
The Mayor has line-item veto authority over specific items in the budget. Additionally, in the event the Mayor were to disapprove the entire budget ordinance, the Charter directs the Mayor to promptly return the budget ordinance to the Board of Supervisors, accompanied by a statement indicating the reasons for disapproval and any recommendations which the Mayor may have. Any budget ordinance so disapproved by the Mayor shall become effective only if, subsequent to its return, passed by a two-thirds vote of the Board of Supervisors as required by Section 2.106 of the Charter.

Overall, the fiscal year 2004-05 budget assumes a gradual recovery in discretionary general fund revenues from fiscal year 2003-04 levels. The achievement of the revenue estimates is dependent upon a variety of known and unknown factors, including the general economy of the Bay Area and the State, and certain State budget decisions, which could have either a positive or negative economic impact on City revenues. These conditions and circumstances may cause the actual results achieved by the City to be materially different from the estimates and projections described herein. The Controller has also in the past issued Six- and Nine-Month Budget Status Reports during the fiscal year. The most recent reports can be viewed at Controller's website at www.sfgov.org/controller. (These reports are not incorporated by reference herein.)

Under provisions of the Administrative Code, the Treasurer-Tax Collector, upon recommendation of the Controller, is authorized to transfer legally available moneys to the City's operating cash reserve from any unencumbered funds then held in the pooled investment fund. The operating cash reserve is available to cover cash flow deficits in various City funds, including the City's General Fund. From time to time, the Treasurer has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other funds of the City. Any such transfers must be repaid within one year of the transfer, together with interest at the then current interest rate earned on the pooled funds. See "Investment Policy" below. Additionally, in November 2003, voters approved the creation of the City's Rainy Day Reserve into which the previous Charter-mandated Cash Reserve was incorporated.

In the past, the City has funded its General Fund cash flow deficits through the annual issuance of tax and revenue anticipation notes ("TRANs"); however, the City has not issued TRANs since fiscal year 1996-97. The City does not anticipate issuing TRANs for the fiscal year 2004-05.

General Fund Results

The fiscal year 2004-05 original budget totals $5.0 billion, of which $2.3 billion is in the General Fund. All other funds total $2.7 billion and include expenditures of other governmental funds and enterprise fund departments such as the Airport (SFO), the Municipal Transportation Agency, the Water Department, the Clean Water Program, Hetch Hetchy Water and Power System, the Port, and the Hospitals (San Francisco General and Laguna Honda). The $2.3 billion General Fund budget contains $25 million from two proposed tax revenue sources, a business tax package (Proposition K) and a ¼ percent increase in sales tax (Proposition J), both of which failed in the November 2004 General Election.

The Controller's Nine-Month Budget Status Report for fiscal year 2004-05 was released on May 3, 2005. The Report projected the General Fund year-end balance to be a $124.2 million surplus, primarily attributed to the additional fund balance available from the prior year due to the timing of vehicle license fee remittances from the State, as well as expenditure savings largely driven by the Mayor's $97 million, 18-month savings plan. As published in the Nine-Month Report, fiscal year 2004-05 General Fund revenues and transfers were projected to be $45.28 million or 2.0 percent better than revised budget. Revenue surplus is primarily due to higher real property transfer tax, property tax, hotel room tax, health and welfare realignment, and sales tax revenues; offset by weakness in payroll tax, voter disapproval of both proposed taxes in November 2004 (i.e. Propositions J and K, as described above), property sale delays, and delays in anticipated court penalty revenues.

The fiscal year 2004-05 budget includes an annual service payment from SFO to the City of $19.2 million for indirect services. However, separate from this indirect service payment, on March 31, 2004, the Office of the Inspector General (OIG) of the U.S. Department of Transportation released the results of its audit of certain payments made by SFO to the City for direct services during fiscal years 1997-98 through 2001-02. The OIG's audit found that the City had received approximately $12.5 million of excess revenue from SFO during fiscal years 1997-98 through 2001-02 with respect to reimbursement for direct services from the City to SFO. In response to this finding, the audit recommends further review of SFO's payments to the City for direct services over the past five fiscal years. A final determination of the level of disallowance is still pending management review and possible appeal of up to the entire $12.5 million for the five-year period.

On March 21, 2005, the City Controller, the Mayor's Budget Director and the Budget Analyst to the Board issued the Three-Year Budget Projection (the "Budget Projection") as required by the Administrative Code. The Budget Projection forecast a $102.2 million General Fund budget shortfall for fiscal year 2005-06, which reflected the estimated cost of providing the current level of City services through current business practices for General Fund supported operations, including the strategies implemented by the Mayor's $97 million, 18-month savings plan for the period from January 1, 2005 through June 30, 2006. This plan was designed to backfill the revenue losses stemming from the voters disapproval of Proposition J (¼ percent sales tax) and Proposition K (temporary $1/10^{th}$ of 1 percent gross receipts business tax package) in the November 2004 election. By June 1, 2005, the Mayor will propose to the Board a balanced fiscal year 2005-06 budget which will close the estimated $102.2 million budget gap and may use some or all of the following solutions: position reductions, programmatic changes, operation consolidations, possible adjustments in the State budget, various capital and equipment deferrals, one-time revenues, and savings from debt refinancing.

Table A-1 shows revised budgeted revenues and appropriations for fiscal years 2000-01, 2001-02, 2002-03, 2003-04, and the original budget for fiscal year 2004-05 for the General Fund portion of the City's budget.

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO
Budgeted General Fund Revenues and Appropriations for
Fiscal Years 2000-01 through 2004-05
(000s)

	FY 2000-01 Final Revised Budget	FY 2001-02 Final Revised Budget	FY 2002-03 Final Revised Budget	FY 2003-04 Final Revised Budget	FY 2004-05 Original Budget
Prior-Year Actual Budgetary Fund Balance	$375,043	$489,347	$385,027	$207,167	$62,830
Budgeted Revenues					
Property Taxes	$426,305	$461,715	$513,203	$527,767	$645,495
Business Taxes	270,077	275,669	282,230	288,619	295,230
Other Local Taxes	394,840	459,814	387,955	371,251	381,446
Licenses, Permits and Franchises	16,357	18,775	16,982	17,074	16,132
Fines, Forfeitures and Penalties	8,818	6,180	4,497	31,843	12,111
Interest and Investment Earnings	25,225	25,063	17,323	12,579	6,300
Rents and Concessions	18,922	19,993	17,833	19,316	21,858
Grants and Subventions	642,842	656,744	686,566	663,997	610,172
Charges for Services	95,831	102,942	102,801	107,847	101,586
Other	978	1,312	24,278	19,296	46,946
Total Budgeted Revenues	$1,900,195	$2,028,207	$2,053,668	$2,059,589	$2,137,276
Proceeds from Issuance of Bonds and Loans	-	$63,662	$13,451	$31,207	-
Expenditure Appropriations					
Public Protection	$630,727	$660,860	$695,409	$668,872	$713,897
Public Works, Transportation & Commerce	98,558	103,295	59,646	60,467	28,483
Human Welfare & Neighborhood Development	463,334	483,523	517,334	507,740	524,257
Community Health	402,876	426,683	461,958	445,236	426,040
Culture and Recreation	107,318	113,453	102,354	93,017	81,820
General Administration & Finance	129,679	140,879	135,449	131,959	143,739
General City Responsibilities	46,141	116,861	61,416	83,406	61,804
Total Expenditure Appropriations	$1,878,633	$2,045,554	$2,033,566	$1,990,697	$1,980,040
Budgetary reserves and designations	$12,275	$123,346	$83,595	$9,301	$66,405
Transfers In	$156,996	$136,028	$137,672	$150,354	$155,643
Transfers Out	(250,932)	(293,517)	(313,341)	(292,664)	(309,304)
Net Transfers In/Out	($93,936)	($157,489)	($175,669)	($142,310)	($153,661)
Budgeted Excess (Deficiency) of Sources Over (Under) Uses	$290,394	$254,827	$159,316	$155,655	-
Variance of Actual vs. Budget	198,953	130,200	47,851	66,956	
Total Actual Budgetary Fund Balance	$489,347	$385,027	$207,167	$222,611	-

Source: Office of the Controller, City and County of San Francisco.

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, worker's compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. The audited General Fund balance as of June 30, 2004 was $210.4 million prepared on a GAAP basis. Such General Fund balance was derived from audited revenues of $2.06 billion for the fiscal year ending on June 30, 2004. Audited General Fund balances as of June 30, 2004 are shown in Table A-2 on both a budget basis and a GAAP basis, respectively.

TABLE A-2

General Fund Balances
As of June 30, 2004
(000s)

	June 30, 2003	June 30, 2004
Reserved for cash/rainy day (economic stabilization)	$55,139	$55,139
Reserved for emergencies	4,198	-
Reserved for encumbrances	43,195	42,501
Reserved for appropriation carryforward	26,880	32,813
Reserved for subsequent years' budgets		
Reserved for budget incentive program	4,018	2,588
Reserved for salaries and benefits (MOU)	4,421	3,654
Reserved for nurses' childcare (MOU)	1,100	-
Reserved for litigation	4,364	2,940
Reserved for Recreation & Park savings	1,511	-
Total Reserved Fund Balance	$144,826	$139,635
Unreserved - designated for litigation & contingency	$14,490	$27,970
Unreserved - available for appropriation	47,851	55,006
Total Unreserved Fund Balance	$62,341	$82,976
Total Fund Balance, Budget Basis	$207,167	$222,611
Budget Basis to GAAP Basis Reconciliation		
Total Fund Balance - Budget Basis	$207,167	$222,611
Unrealized gain on investment	3,266	277
Reserved for assets not available for appropriation	6,768	7,142
Cumulative excess property tax revenues recognized on Budget basis	(20,889)	(19,882)
Other	-	287
Total Fund Balance, GAAP Basis	$196,312	$210,435

Source: Office of the Controller, City and County of San Francisco.

Table A-3, entitled "Statement of Revenues, Expenditures and Changes in General Fund Balances," is extracted from information in the City's audited financial statements (Comprehensive Annual Financial Reports) for the five most recent fiscal years for which audits are available. Excerpts from audited financials for the fiscal year ended June 30, 2004 are included herein as Appendix C—"EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2004." Prior years' audited financials can be obtained from the Controller's website at www.sfgov.org/controller. (These reports are not incorporated by reference herein.) Excluded from these General Fund statements are special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) as well as all of the enterprise operations of the City, each of which prepares separate audited financial statements.

TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO

Statement of Revenues, Expenditures and Changes in General Fund Balances (000s) [1]

	2000	2001	2002	2003	2004
Revenues:					
Property Taxes	$405,560	$462,171	$507,308	$516,955	$547,819
Business Taxes	267,197	277,094	274,125	276,126	264,351
Other Local Taxes	411,082	448,132	334,357	345,735	403,549
Licenses, Permits and Franchises	16,106	17,714	19,548	16,217	17,501
Fines, Forfeitures and Penalties	9,113	9,097	8,591	5,595	22,158
Interest and Investment Income	18,792	27,693	20,737	7,798	3,222
Rents and Concessions	20,395	19,298	17,636	17,576	17,497
Intergovernmental	615,318	636,430	661,396	667,172	660,243
Charges for Services	86,591	100,325	102,782	93,840	95,951
Other	9,706	17,395	10,338	11,880	29,564
Total Revenues	$1,859,860	$2,015,349	$1,956,818	$1,958,894	$2,061,855
Expenditures:					
Public Protection	$597,949	$626,136	$650,019	$695,693	$670,729
Public Works, Transportation & Commerce	85,655	95,486	103,579	57,458	58,711
Human Welfare and Neighborhood Development	383,305	431,266	467,688	492,083	489,001
Community Health	355,720	365,290	395,465	424,302	413,725
Culture and Recreation	87,373	106,728	108,810	96,959	92,978
General Administration & Finance	140,211	127,366	136,143	130,786	128,135
General City Responsibilities	45,194	45,380	50,105	52,308	74,631
Total Expenditures	$1,695,407	$1,797,652	$1,911,809	$1,949,589	$1,927,910
Excess of Revenues over Expenditures	$164,453	$217,697	$45,009	$9,305	$133,945
Other Financing Sources (Uses):					
Transfers In	$156,984	$134,983	$109,941	$105,211	$121,491
Transfers Out	(286,660)	(257,317)	(316,691)	(303,216)	(277,316)
Other Financing Sources	-	-	63,121	4,621	36,003
Other Financing Uses	-	-	(176)	-	-
Total Other Financing Sources (Uses)	($129,676)	($122,334)	($143,805)	($193,384)	($119,822)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	$34,777	$95,363	($98,796)	($184,079)	$14,123
Fund Balance at Beginning of Year, as restated before valuation of investments	$240,863	$275,640	$479,187	$380,391	$196,312
Net Change in Reserve for Assets Not Available for Appropriation	-	-	-	-	-
Cumulative Effect of Change in Accounting Principles	-	108,184	-	-	-
Fund Balance at Beginning of Year, as restated	$240,863	$383,824	$479,187	$380,391	$196,312
Fund Balance at End of Year -- GAAP Basis [1]	$275,640	$479,187	$380,391	$196,312	$210,435
Unreserved and Undesignated Balance at End of Year -- GAAP Basis	$45,090	$207,467	$136,664	$44,718	$63,657
Unreserved & Undesignated Balance, Year End -- Budget Basis	$148,581	$198,953	$130,200	$47,851	$55,006

[1] Fund Balances include amounts reserved for rainy day (economic stabilization), emergencies, encumbrances, appropriation carryforwards and other purposes (as required by the Charter or appropriate accounting practices) as well as unreserved and undesignated fund balances (which amounts constitute unrestricted general fund balances)

Source: Comprehensive Annual Financial Report for the Years Ended June 30, 2000-2004. Office of the Controller, City & County of San Francisco.

Impact of September 11, 2001

Following the events of September 11, 2001 in New York City and Washington, D.C., both business and tourist travel in San Francisco declined significantly, including passenger loads and revenues at SFO and hotel and sales tax revenues to the City. In fiscal year 2001-02, significant year to year losses occurred in hotel tax revenues, which fell 29.8% ($56.2 million), sales tax revenues, which declined 15.5% ($21.5 million), and SFO's transfer of concession revenue to the City's General Fund, which declined 28.4% ($7.0 million).

Impact of State Budget

Each year the Governor releases two primary proposed budget documents: 1) the January Proposed Budget; and, 2) the May Revise (that is, the revise to the January Proposed). Given the City's revenue dependency on State funding, each year policymakers review and consider the budgetary impact of projected changes related to both the January and May publications. Revenues from the State represent approximately 19% of the City's fiscal year 2004-05 General Fund Budget. For fiscal year 2004-05, the City's budget included a $28.7 million State Revenue Loss Reserve, which was available to address the City's fiscal year 2004-05 estimated discretionary revenue loss. The loss in fiscal year 2004-05 was attributed to additional property tax diversions (ERAF III).

For fiscal year 2004-05, State revenue shifts affect property taxes, sales taxes and VLF revenues. This included an estimated loss of $32.05 million in discretionary funding overall. State Revenue shifts are summarized in the Controller's Nine-Month Report on page 7. The City assumed continuing property tax shifts related to ERAF, including the two-year ERAF III shift which removes an additional $25.2 million in General Fund property tax revenues in both fiscal years 2004-05 and fiscal year 2005-06. Detailed discussion of other State and Federal budget impact is included on page 15 in the Three-Year Budget Projection, dated March 21, 2005. This report can be viewed at Controller's website at www.sfgov.org/controller. (These reports are not incorporated by reference herein.)

For fiscal year 2005-06, the Governor's Proposed Budget, released on January 10, 2005, includes a total General Fund impact of $46.5 million. Of the $46.5 million, discretionary revenues represent $25.2 million, which is attributed to ERAF III impact to the City's General Fund for fiscal year 2005-06. The remaining $21.3 million is programmatic revenue. The largest component of that $21.3 million is $12.3 million related to In-Home Supportive Services reductions.

The Governor's May Revise was released on May 13, 2005. City staff will be working with the Board of Supervisors and the Mayor to analyze the May Revise and its impacts on the City's General Fund as part of the City's annual budget process. Based upon a preliminary review, the May Revise includes some increases in State funding to the City, predominantly one time in nature as related to the early repayment of the vehicle license fee gap loan. Additionally, the May Revise also appears to include positive impacts related to Proposition 42 funding (transportation funding). The City's review of the May Revise is ongoing and in any case no assurance can be given that the final budget enacted by the State will reflect all of the proposals contained in the Governor's proposed budget.

Assessed Valuations, Tax Rates and Tax Delinquencies

Table A-4 provides a five-year record of assessed valuations of taxable property within the City. The property tax rate is comprised of two components: (1) the 1.0% countywide portion permitted by Proposition 13, and (2) all voter-approved overrides which fund debt service for general obligation indebtedness. The total tax rate shown in Table A-4 includes taxes assessed on behalf of the San Francisco Unified School District, San Francisco Community College District, Bay Area Air Quality Management District, and Bay Area Rapid Transit (BART) District, all of which are legally separate entities from the City. See also Table A-10 "Statement of Direct and Overlapping Bonded Debt" below. Additionally, a portion of property taxes collected within the City is allocated to the San Francisco Redevelopment Agency.

Total assessed value has increased on average by 7.6% per year since fiscal year 2000-01; however, in fiscal year 2004-05, the increase was 6.6%. Property tax delinquencies based on the weighted average of the secured and unsecured delinquency rates have averaged 1.62% over the four years ending in fiscal year 2003-04.

TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property [1]
Fiscal Years 2000-01 through 2004-05
(000s)

Fiscal Year	Assessed Valuation: Land	Assessed Valuation: Improvements on Land	Assessed Valuation: Personal Property	Total Assessed Valuation	% Change from Prior Year	Exclusions[2]	Total Tax Rate per $100[3]	Total Tax Levy (000s)[4]	Current Levy Delinquent June 30,
2000-01	30,294,991	46,572,658	4,198,154	81,065,803	10.1%	3,416,264	1.136	892,675	1.48%
2001-02	34,849,574	51,294,178	4,744,367	90,888,119	12.1%	3,625,783	1.124	1,010,960	1.79%
2002-03	37,851,208	55,002,726	4,681,815	97,535,748	7.3%	3,797,422	1.117	1,051,921	1.83%
2003-04	40,778,606	57,505,939	3,808,383	102,092,928	4.7%	3,947,660	1.107	1,100,951	1.38%
2004-05	44,383,604	60,741,259	3,675,195	108,800,058	6.6%	4,328,770	1.144	1,192,571	n/a

[1] For comparison purposes, all years show full cash value as assessed value.
[2] Exclusions include non-reimbursable exemptions and homeowner exemptions.
[3] Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community College District, Bay Area Air Quality Management District, and Bay Area Rapid Transit District. Annual tax rate for unsecured property is the same rate as the previous year's secured tax rate.
[4] Final levy as of year end through fiscal year 2003-04. The tax levy of fiscal year 2004-05 is an estimate based on the Certificate of Assessed Valuation and does not include any reduction for delinquencies.

Source: Office of the Controller, City and County of San Francisco.

The fiscal year 2004-05 total assessed valuation of property within the City is $108,800,058,290. After deducting non-reimbursable and homeowner exemptions, net assessed valuation is $104,471,287,868. Of this total, $97,497,677,552 (93%) represents secured valuations and $6,973,610,316 (7%) represents unsecured valuations. The net valuation will result in total budgeted property tax revenues of $1,192,571,297 before reflecting delinquencies. The City's fiscal year 2004-05 General Fund budgeted property tax revenue of $645.5 million represents approximately 54% of all property taxes. Debt service for general obligation bonds is also funded through property tax revenues. The San Francisco Community College District, the San Francisco Unified School District and the Educational Revenue Augmentation Funds (also known as "ERAF") are collectively estimated to receive approximately $275 million and the San Francisco Redevelopment Agency will receive approximately $54.6 million. The remaining portion will be allocated to various special funds and other taxing entities.

Under Article XIII A of the State Constitution, property sold after March 1, 1975 must be reassessed to full cash value. As a result of the downturn in the economy, property owners in the City have filed 1,638 applications for assessment appeal against the fiscal year 2004-05 levy between July 1, 2004 and February 28, 2005. Taxpayers had until November 30, 2004 to file assessment appeal for secured property for fiscal year 2004-05. As in every year, some appeals are multiple-year or retroactive in nature. With respect to fiscal year 2004-05, property owners representing approximately 24% of the total assessed valuation of the City have filed appeals for partial reduction of their assessed value.

This is similar to the previous year, fiscal year 2003-04, where property owners representing approximately 25% of total assessed valuation filed for partial reduction of their assessed value. Most of the appeals involve large commercial properties, including offices and hotels. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with the counties' property assessments.

The City has experienced similar increases in appeals activity in previous economic downturns and historically, partial reductions of 22% to 25% of the total assessment valuations have been granted on average, depending on the severity of the downturn and underlying economic conditions. The reduction of 25% of the total assessment valuation (for example) would be equivalent to 6.5% of total revenue. To mitigate the financial risk of pending assessment appeals, the City establishes a reserve for each fiscal year. In addition, appeals activity is reviewed each year and incorporated into the subsequent year's budget projection. See "CONSTITUTIONAL AND STATUTORY TAX" in the forepart of this Official Statement.

Generally, property taxes levied by the City on real property become a lien on that property by operation of law. A tax levied on personal property does not automatically become a lien against real property without an affirmative act of the City taxing authority. Real estate tax liens have priority over all other liens against the same property regardless of the time of their creation by virtue of express provision of law.

Property, which is subject to ad valorem taxes, is entered on separate parts of the assessment roll maintained by the county assessor. The secured roll is that part of the assessment roll containing State-assessed property and property on which liens are sufficient, in the opinion of the Assessor, to secure payment of the taxes owed. Other property is placed on the "unsecured roll."

The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured personal property taxes: (1) pursuing civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts, including the date of mailing a copy thereof to the affected taxpayer, in order to obtain a judgment against the taxpayer; (3) filing a certificate of delinquency for recording in the county recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes. Proceeds of the sale are used to pay the costs of sale and the amount of delinquent taxes.

A 10% penalty is added to delinquent taxes that have been levied on property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is declared "tax defaulted" and subject to eventual sale by the Treasurer-Tax Collector of the City. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month, which begins to accrue on such taxes beginning July 1 following the date on which the property becomes tax-defaulted.

In October 1993, the Board passed a resolution, which adopted the Alternative Method of Tax Apportionment (the "Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the Controller to allocate to the City's taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City's General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan. This reserve has been funded at $8.1 million as of June 30, 2001, $9.1 million as of June 30, 2002, $9.0 million as of June 30, 2003 and $8.9 million as of June 30, 2004.

Pacific Gas & Electric Company (PG&E) is one of the largest taxpayers in the City with 0.93% of the total fiscal year 2004-05 assessed property values. Over the recent past, PG&E filed for voluntary protection under Chapter 11 of the U.S. Bankruptcy Code (filed on April 6, 2001). PG&E took the position that it was not able to make full payment of its 2000-01 property taxes without Bankruptcy Court permission and therefore only paid a portion of its second installment, due on April 10, 2001. On May 16, 2001, the Bankruptcy Court ruled that PG&E could pay the remaining portion of its outstanding property taxes and PG&E has made full and timely payments of its property taxes and franchise fees since that time.

On March 26, 2004, PG&E filed with United States Bankruptcy Court a statement that all conditions to effectiveness of its plan of reorganization had been satisfied. The effective date of the plan occurred on April 12, 2004. Under the company's confirmed plan of reorganization, PG&E will pay in full or otherwise satisfy undisputed claims of creditors on the effective date or as soon as practicable thereafter. However, it should be noted that bankruptcies involving large and complex companies typically take several years to reach a conclusion and delays may arise. In the interim, it is possible that PG&E's future payments of property taxes may not be made on a timely basis.

Assessed valuations of the ten largest taxpayers in the City for the fiscal year ended June 30, 2004 are shown in Table A-5.

TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO
Principal Property Taxpayers
Fiscal Year Ended June 30, 2005

Fiscal Year 2004-05 Net Assessed Valuation (net of non-reimbursables exemptions) ($000s): $105,144,118

Taxpayer	Type of Business	AV ($000s)	% Total AV
Embarcadero Center Venture	Offices, Commercial	$1,410,865	1.34 %
Pacific Gas & Electric Co.	Utilities	976,099	0.93
555 California St. Partners	Offices, Commercial	924,454	0.88
SBC California	Utilities, Communications	441,015	0.42
EOP-One Market LLC	Offices	401,262	0.38
CB-1 Entertainment Partners	Hotel, Condos	393,972	0.37
Mariott Hotel	Hotel	391,943	0.37
Post Montgomery Associates	Offices, Commercial	382,157	0.36
China Basin Ballpark Company LLC	Possessory Interest - Stadium	375,661	0.36
BRE-St Francis LLC	Hotels	331,824	0.32
Ten Largest Taxpayers		$6,029,252	5.73
All Other Taxpayers		$99,114,866	94.27%
Total Taxable Assessed Valuation - All Taxpayers		$105,144,118	100.00%

Source: Office of the Assessor, City and County of San Francisco.

Other City Tax Revenues

In addition to property tax, the City has several other major tax revenue sources, as described below. For a discussion of State constitutional and statutory limitations on taxes that may be imposed by the City, including a discussion of Proposition 62 and Proposition 218, see "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS" in the forepart of this Official Statement.

The following is a brief description of other major City-imposed taxes as well as taxes that are collected by the State and shared with the City.

Business and Employers Payroll Tax

Businesses in the City are assessed a payroll expense tax at a rate of 1.5%. The tax is levied on businesses with payroll expenses that are attributable to all work performed or services rendered within the City. The tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. Fiscal year 2004-05 business registration budget is $7.0 million and payroll tax budget is assumed to be $288.2 million; however, as of the Nine-Month Report, the City was projecting payroll tax revenues to be $17.23 million under budget. This is due to lagging jobs growth in 2004, where previously there had been an assumption of gradual improvement occurring in the budget. Additionally, this revenue is based on calendar year activity, so any recovery typically shows up in the next fiscal year. For example, jobs and wage growth in calendar year 2005 will result in better fiscal year 2005-06 revenues.

Prior to April 23, 2001, the City imposed an alternative-measure tax pursuant to which a business tax liability was calculated as the greater of a percentage of either its gross receipts or its payroll expense. Between 1999 and 2001, approximately 325 businesses filed claims with the City and/or lawsuits against the City arguing that the alternative-measure tax scheme violated the Commerce Clause of the United States Constitution.

In 2001, the City entered into a settlement agreement resolving most of these lawsuits and claims for considerably less than the total amount of outstanding claims. Concurrently with the settlement of the lawsuits, the City repealed the alternative-measure tax in 2001, curing any alleged constitutional defects. All claims had to be filed by November 2001, and any payments related to lawsuits or claims already filed that remain unsettled are expected to be covered by contingency reserves, judgment bonds or some combination thereof at this time.

Sales and Use Tax

The State collects the City's 1% local sales tax on retail transactions, with State and special district sales taxes, and rebates the local sales tax collections to the City. The 1% local sales tax is deposited in the City's General Fund, less the approximate ¼ percent related to the Triple Flip, which started in fiscal year 2004-05. Fiscal year 2004-05 sales and use tax receipts are budgeted at $90.9 million; however, as of the Nine-Month Report, the City was projecting sales and use taxes to be approximately $5.5 million better than budget. This projection assumes average 3.7% growth for the entire fiscal year plus the better than expected $3.5 million difference in the State revenue shift (i.e. the Triple Flip) assumed in the budget. Sales tax revenue will be dependent on tourism and jobs growth. A history of sales and use tax revenues through fiscal year 2003-04 is presented in Table A-6. As illustrated in the table, this revenue was significantly impacted by the economic downturn along with decreasing tourism and business travel.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Receipts (000's)
Fiscal Years 1999-00 through 2003-04

Fiscal Year	Tax Rate	City Share	Revenue	% Change
1999-00	8.50 %	1.00 %	$133,395	14.25 %
2000-01	8.50	1.00	138,281	3.66
2001-02	8.50	1.00	116,827	-15.51
2002-03	8.50	1.00	115,578	-1.07
2003-04	8.50	1.00	120,642	4.38

State Sales Tax Rate for last six months of FY 1999-00 and first six months of FY 2000-01 was 8.25%; the Local Share shown above remained unchanged at 1.00% for the periods shown. Revenues are adjusted so underlying sales activity is reflected in the same fiscal year.

Source: Office of the Controller, City and County of San Francisco.

Transient Occupancy Tax

Pursuant to the San Francisco Business and Tax Regulation Code, a 14% transient occupancy tax is imposed on occupants of hotel rooms and remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. In fiscal year 2003-04, revenue from transient occupancy tax grew 15.3% (or approximately $20 million), after two years of decline. Budgeted revenue from transient occupancy tax for fiscal year 2004-05 was $143.1 million; including $5.6 million allocated to the Redevelopment Agency. As of the Nine-Month Report, the City was projecting the transient occupancy tax to be approximately $15.9 million better than budget in the General Fund. Table A-7 sets forth a history of transient occupancy tax receipts through fiscal year 2003-04. As illustrated in the table, this revenue was significantly impacted by the economic downturn along with decreasing tourism and business travel.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Receipts (000's)
Fiscal Years 1999-00 through 2003-04

Fiscal Year	Tax Rate	Revenue	% Change
1999-00	14.00%	182,102	12.74%
2000-01	14.00%	188,377	3.45%
2001-02	14.00%	132,226	-29.81%
2002-03	14.00%	128,590	-2.75%
2003-04	14.00%	148,231	15.27%

Revenues are adjusted so underlying tax revenue is reflected in the same fiscal year as the occupancy activity.

Source: Office of the Controller, City and County of San Francisco

Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. The current rate is $5.00 per $1,000 of the sale price of the property being transferred for properties valued at $250,000 or less, $6.80 per $1,000 for properties valued more than $250,000 or less than $999,999; and $7.50 per $1,000 for properties valued at $1.0 million or more. Budgeted revenue from real property transfer tax for fiscal year 2004-05 was $70.0 million; however, the Nine-Month Report projected real property transfer taxes to be over budget by approximately $36.5 million.

Utility Users Tax

The City imposes a 7.5% tax on non-residential users of gas, electricity, water, steam and telephone utilities, as well as all cellular telephone and enhanced specialized mobile radio communication services for billing addresses in the City. Budgeted revenue from utility users tax for fiscal year 2004-05 was $66.3 million. The Nine-Month Report projected utility users tax revenue to be $2.6 million better than budget.

Parking Tax

A 25% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the San Francisco Business and Tax Regulation Code paid by the occupants of the spaces and remitted monthly by the operators of the parking facilities. A quarterly tax-filing requirement is also imposed. Budgeted General Fund revenue from the parking tax for fiscal year 2004-05 was $32.1 million; the Nine-Month Report projected parking taxes to be 0.29 million under budget.

Intergovernmental Revenues, Grants and Subventions

Intergovernmental revenues, grants and subventions were budgeted at $958.0 million for fiscal year 2004-05. This included $316.2 million from the Federal government, $591.9 million from the State, and $49.9 million from other intergovernmental sources across all City funds. In the General Fund, intergovernmental revenues, grants and subventions were budgeted for a total of $610.2 million, including $176.1 million from the Federal government and $434.1 million from the State.

Health and Welfare Realignment

In fiscal year 1991-92, the State transferred to counties responsibility for determining service levels and administering most mental health, public health and some social service programs, thereby reducing the State's obligations. The State also increased its share of certain welfare costs formerly borne by counties. In order to meet these obligations, counties receive the proceeds of a 0.5% statewide sales tax and a portion of vehicle license fees. These sources were budgeted to provide $206.2 million to the City's General Fund and its two county hospitals for fiscal year 2004-05, and the Nine-Month Report projected such sources to provide approximately $11.0 million more than the budgeted amount.

Motor Vehicle License Fees

The City's budget reflects the permanent roll-back of the vehicle license fee revenues, along with the associated backfill made by the State wherein they partially reduced the amount of property taxes shifted from the City to the Education Revenue Augmentation Fund to make up the difference. After factoring in all State shifts, the fiscal year 2004-05 budget level vehicle license fee revenues is much less than in prior years at only $15.2 million. As of the Nine-Month Report projected revenues are estimated to be $8.6 million less than budget.

Public Safety Sales Tax

State Proposition 172, passed by the voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. Budgeted revenue from this source was $62.9 million for fiscal year 2004-05; as of the Nine-Month Report, such revenues were projected to be $3.8 million better than budget.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, across all funds in fiscal year 2004-05, the City budgeted approximately $673.7 million in social service subventions from the State and Federal governments to fund programs such as Food Stamps, CalWORKs, Child Support Services and transportation projects. Health and welfare subventions are often based on State and Federal funding formulas, which currently reimburse counties according to actual spending on these services. As of the Nine-Month Report, these receipts are projected to be $2.3 million better than budget overall.

Charges for Services

Charges for services were budgeted at $101.6 million for fiscal year 2004-05. This included $22.9 million of general government service charges (primarily planning fees), $17.6 million of public safety service charges (including, for example, boarding of prisoners and safety inspection fees), $8.4

million of recreation charges, $44.8 million of MediCal, MediCare and health service charges, and $7.9 million of other miscellaneous service charges.

Investment Policy

The management of the City's surplus cash is governed by an Investment Policy administered by the Treasurer-Tax Collector. In order of priority, the objectives of this Investment Policy are the preservation of capital, liquidity and yield. The preservation of capital is the foremost goal of any investment decision, and investments generally are made so that securities can be held to maturity. Once safety and liquidity objectives have been achieved, the Treasurer-Tax Collector then attempts to generate a favorable return by maximizing interest earnings without compromising the first two objectives. A report detailing the investment portfolio and investment activity, including the market value of the portfolio, is submitted to the Mayor and the Board monthly.

The investment portfolio is sufficiently flexible to enable the City to meet all disbursement requirements that are anticipated from any fund during the subsequent eighteen months. As of April 30, 2005 the City's surplus investment fund consisted of the investments classified in Table A-8, and had the investment maturity distribution presented in Table A-9.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO
Investment Portfolio
As of April 30, 2005

Type of Investment	Par Value	Book Value	Market Value
Treasury Bills	$515,000,000	$509,926,438	$512,362,703
Treasury Notes	55,000,000	54,547,070	54,867,188
FNMA Discount Notes	561,000,000	558,465,524	560,203,465
Federal Home Loan Disc Notes	589,000,000	586,806,102	587,452,703
FMC Discount Notes	95,000,000	94,344,715	94,689,374
Negotiable C. D.'s	408,000,000	408,000,000	407,960,565
Commercial Paper Disc	665,000,000	662,670,010	664,031,922
Public Time Deposit	100,000	100,000	99,360
Total	$2,888,100,000	$2,874,859,859	$2,881,667,280

Source: Office of the Treasurer, City and County of San Francisco

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Investment Maturity Distribution
As of April 30, 2005

Maturity				Cost	Percentage
1	to	2	Months	$2,341,578,474	81.45%
2	to	3	Months	343,506,590	11.95
3	to	4	Months	180,201,358	6.27
4	to	5	Months	-	0.00
5	to	6	Months	-	0.00
6	to	12	Months	-	0.00
12	to	18	Months	-	0.00
18	to	24	Months	9,573,437	0.33
24	to	36	Months	-	0.00
36	to	48	Months	-	0.00
48	to	60	Months	-	0.00
				$2,874,859,859	100.00%

Weighted Average Maturity: 35 Days

Source: Office of the Treasurer, City and County of San Francisco.

Statement of Direct and Overlapping Bonded Debt

The pro forma statement of direct and overlapping bonded debt and long-term obligations (the "Debt Report"), presented in Table A-10 has been compiled by the Office of Public Finance.

The Debt Report generally includes long-term obligations sold in the public credit markets by the City and public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. For this purpose, lease obligations of the City, which support indebtedness incurred by others, are included.

TABLE A-10

CITY AND COUNTY OF SAN FRANCISCO

Statement of Direct and Overlapping Debt and Long-Term Obligations

2004-2005 Assessed Valuation (net of non-reimbursable & homeowner exemptions): $ 104,471,287,868

	Outstanding 4/30/2005	Self-Supporting, Enterprise Rev.
DIRECT GENERAL OBLIGATION BOND DEBT		
General City Purposes Carried on the Tax Roll	$921,225,000	
Harbor Bonds (paid from Port revenues)	400,000	$400,000
GROSS DIRECT DEBT	$921,625,000	$400,000
NET DIRECT DEBT	$921,225,000	
LEASE PAYMENT AND OTHER LONG-TERM OBLIGATIONS		
San Francisco COPs, Series 1997 (2789 25th Street Property)	$7,885,000	
San Francisco COPs, Series 1999 (555-7th Street Property)	7,440,000	
San Francisco Parking Authority Lease Revenue Bds, Series 2000A (North Beach Garage)	7,680,000	
San Francisco COPs, Series 2000 (San Bruno Jail Replacement Project)	135,150,000	
San Francisco Refunding COPs, Series 2001-1 (25 Van Ness Avenue Property)	13,025,000	
San Francisco Refunding Settlement Obligation Bonds, Series 2003-R1	38,670,000	
San Francisco COPs, Series 2001A & Taxable Series 2001B (30 Van Ness Ave. Property)	35,330,000	
San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project)	41,965,000	
San Francisco Finance Corporation	230,620,000	
San Francisco Permit Center, Series 1993	3,175,000	
San Francisco Lease Revenue Refunding Bonds, Series 1998-I	3,060,000	
San Francisco Redevelopment Agency Moscone Convention Center 1992	37,034,998 [2]	
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2002	67,555,000	
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2004	33,565,000	
San Francisco Courthouse Corporation COPs, Refunding Bonds, Series 2004	39,350,000	
LONG-TERM OBLIGATIONS	$701,504,998	
GROSS DIRECT DEBT & OBLIGATIONS	$1,623,129,998	
OVERLAPPING DEBT & LONG-TERM OBLIGATIONS		
Bayshore Hester Assessment District	$895,000	
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	145,315,000	
San Francisco Community College District General Obligation Bonds - Election of 2001	146,600,000	
San Francisco Parking Authority Meter Revenue Bonds -1994	725,000	
San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1	21,410,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 1994	13,030,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Refunding Bonds - 1998	54,190,000	
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	492,180,667	
San Francisco Unified School District General Obligation Bonds - Election of 2003	58,000,000	
San Francisco Unified School District COPs (1235 Mission Street), Series 1992	9,348,827	
San Francisco Unified School District COPs - 1996 Refunding, 1998 & 1999	17,970,000	
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	$959,664,494	
GROSS COMBINED TOTAL OBLIGATIONS	$2,582,794,492 [1]	

Ratios to Assessed Valuation:	**Actual Ratio**	**Charter Req.**
Gross Direct Debt (General Obligation Bonds)	0.88%	< 3.00%
Net Direct Debt (less self-supporting bonds)	0.88%	n/a
Gross Direct Debt & Obligations	1.55%	n/a
Gross Combined Total Obligations	2.47%	n/a

STATE SCHOOL BUILDING AID REPAYMENT FOR FY 04-05 $129,940

[1] Excludes revenue and mortgage revenue bonds notes, and non-bonded capital lease obligations.

[2] The accreted value as of July 1, 2004 is $89,450,214.

Source: Office of Public Finance, City and County of San Francisco.

Tax Supported Debt Service

Under the State Constitution and the Charter, general obligation bonds can only be authorized through voter approval. As of April 30, 2005, the City had $921.6 million in general obligation bonds outstanding, including $0.4 million of general obligation bonds repaid from Port of San Francisco revenues and not carried on the City's property tax roll.

Table A-11 shows the annual amount of debt service payable on the City's outstanding general obligation bonds.

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Direct Tax Supported Debt Service
As of April 30, 2005[1]

Fiscal Year	Principal	Interest	Annual Debt Service
2005	$65,270,000	$23,513,123	$88,783,123
2006	67,805,000	42,266,446	110,071,446
2007	70,795,000	39,017,794	109,812,794
2008	71,875,000	35,543,607	107,418,607
2009	75,250,000	32,061,668	107,311,668
2010	75,775,000	28,376,197	104,151,197
2011	77,025,000	24,561,322	101,586,322
2012	65,120,000	20,734,865	85,854,865
2013	55,685,000	17,598,464	73,283,464
2014	49,695,000	14,876,600	64,571,600
2015	42,195,000	12,427,942	54,622,942
2016	44,345,000	10,296,000	54,641,000
2017	33,695,000	8,053,759	41,748,759
2018	31,620,000	6,323,554	37,943,554
2019	31,460,000	4,691,977	36,151,977
2020	21,990,000	3,082,815	25,072,815
2021	16,985,000	2,452,605	19,437,605
2022	10,550,000	1,109,747	11,659,747
2023	8,865,000	663,056	9,528,056
2024	5,625,000	246,093	5,871,093
TOTAL [3]	$921,625,000	$327,897,634	$1,249,522,634

[1] The City's only outstanding direct tax supported debt is general obligation bonds. This table does not reflect any debt other than direct tax supported debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.

[2] Reduced by debt service payments through April 30, 2005.

[3] Total debt includes general obligation bonds repaid from Port revenues and not levied on the City's property tax roll.

Source: Office of Public Finance, City and County of San Francisco.

In November 1992, voters approved Proposition A, which authorized the issuance of up to $350.0 million in general obligation bonds to provide moneys to fund the City's Seismic Safety Loan Program (the "Loan Program"). The purpose of the Seismic Safety Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued $35.0 million in taxable general obligation bonds to fund the Loan Program and in October 2002, the City redeemed the remaining outstanding bonds. The City may issue additional bonds under the Loan Program authorization in calendar year 2005.

In June 1997, voters approved Proposition C, which authorized the issuance of up to $48.0 million in general obligation bonds for the acquisition, construction and/or reconstruction of San Francisco Zoo facilities. The City has issued an aggregate total of $40.5 million in three series of such bonds. The City anticipates issuing the remaining $7.5 million in 2005.

In November 1999, voters approved Proposition A, which authorized the issuance of up to $299.0 million in bonded debt, other evidences of debt and/or lease financing for the reconstruction, improvement and expansion of a new health care, assisted living and/or other type of continuing care facility or facilities to replace facilities at Laguna Honda Hospital. The City anticipates issuing approximately $230.0 million of the total authorized amount by May 2005.

In March 2000, voters approved Proposition A which authorized the issuance of up to $110.0 million in general obligation bonds to acquire, construct, or reconstruct recreation and park facilities and properties. The City has issued three series of Neighborhood Recreation and Park Bonds in June 2000, February 2001, and in July 2003 comprising a total of $41.2 million. The City issued the fourth and final series in October 2004 in the amount of $68.8 million.

In March 2000, voters approved Proposition B which authorized the issuance of up to $87.4 million in general obligation bonds to acquire, construct, or reconstruct the facilities of the California Academy of Sciences. In November 1995, the voters approved Proposition C, which authorizes the issuance of up to $29.2 million to pay the cost of acquisition, construction and/or reconstruction of certain improvements to the Steinhart Aquarium and related facilities. Proposition B and Proposition C proceeds will be used together with other monies of the California Academy of Sciences to reconstruct the California Academy of Science Building and the Steinhart Aquarium. The City issued the first series of the California Academy of Sciences Bonds in October 2004 for a total of $8.0 million. The City anticipates issuing California Academy of Sciences and Steinhart Aquarium bonds in 2005.

In November 2000, voters approved Proposition A, which authorized the issuance of up to $105.9 million in general obligation bonds for the acquisition, renovation and construction of branch libraries and other library facilities. The City issued two series of library bonds in July 2001 and October 2002 for a total of $40.8 million. The City anticipates issuing a third series in 2005.

Table A-12 below lists the City's voter-authorized general obligation bonds including authorized programs for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of April 30, 2005, the City had authorized and unissued general obligation bond authority of $795.2 million.

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds (as of April 30, 2005)

Description of Issue (Date of Authorization)	Series	Issued	Outstanding	Authorized & Unissued
Harbor Improvement Bonds	B	$10,000,000	$400,000	-
Public Safety Improvement Projects (11/7/89)	1996B	7,645,000	335,000	-
Public Safety Improvement Projects (6/5/90)	1995A	18,480,000	-	- [1]
Golden Gate Park Improvements (6/2/92)	1995B	26,000,000	-	-
	1997A	25,105,000	18,885,000	-
	2001A	17,060,000	15,270,000	-
Fire Department Facilities Project (11/3/92)	1996C	14,285,000	630,000	-
Seismic Safety Loan Program (11/3/92)	1994A	35,000,000	-	$315,000,000
School District Facilities Improvements (6/7/94)	1996D	42,300,000	1,860,000	-
	1997B	22,050,000	16,580,000	-
Asian Art Museum Relocation Project (11/8/94)	1996E	25,000,000	1,100,000	-
	1999D	16,730,000	14,000,000	-
City Hall Improvement (11/8/95)	1996A	63,590,000	2,810,000	-
Steinhart Aquarium Improvement (11/8/95)		-	-	29,245,000
Affordable Housing Bonds (11/5/96)	1998A	20,000,000	16,365,000	-
	1999A	20,000,000	17,190,000	-
	2000D	20,000,000	17,495,000	-
	2001C	17,000,000	15,380,000	-
	2001D	23,000,000	21,110,000	-
Educational Facilities - Community College District (6/3/97)	1999A	20,395,000	16,935,000	-
	2000A	29,605,000	25,950,000	-
Educational Facilities - Unified School District (6/3/97)	1999B	60,520,000	50,270,000	-
	2003B	29,480,000	28,330,000	-
Zoo Facilities Bonds (6/3/97)	1999C	16,845,000	13,990,000	-
	2000B	17,440,000	15,285,000	
	2002A	6,210,000	5,790,000	7,505,000
Laguna Honda Hospital (11/2/99)		-	-	299,000,000
Recreation and Parks (3/7/00)	2000C	6,180,000	5,415,000	-
	2001B	14,060,000	12,580,000	
	2003A	20,960,000	20,145,000	
	2004A	68,800,000	68,800,000	-
California Academy of Sciences Improvement (3/7/00)	2004B	8,075,000	8,075,000	79,370,000
Branch Library Facilities Improvement (11/7/00)	2001E	17,665,000	15,920,000	
	2002B	23,135,000	21,575,000	65,065,000
SUB TOTALS		**$762,615,000**	**$468,470,000**	**$795,185,000**
General Obligation Refunding Bonds Series 1997-1 issued 10/27/97		$449,085,000	$322,950,000	
General Obligation Refunding Bonds Series 2002-R1 issued 4/23/02		$118,945,000	$108,275,000	
General Obligation Refunding Bonds Series 2004-R1 issued 6/16/04		$21,930,000	$21,930,000	
TOTALS		**$1,352,575,000**	**$921,625,000**	**$795,185,000**

[1] Reflects reductions from approved FEMA and State grants totaling $122,460,000 as provided in the bond authorization.

Source: Office of Public Finance, City and County of San Francisco.

Lease Payments and Other Long-Term Obligations

Under the Charter, most lease financing structures can only be authorized with the approval of the voters Table A-13 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of April 30, 2005. Note that the annual payment obligations reflected in Table A-13 include the fully-accreted value of any capital appreciation obligations that will accrue as of the final payment dates.

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO
Lease Payment and Other Long-Term Obligations
April 30, 2005

Fiscal Year	Principal	Interest	Annual Payment Obligation
2005	$5,459,921	$10,420,325	$15,880,246
2006	36,801,346	36,840,632	73,641,978
2007	37,493,666	36,046,416	73,540,082
2008	35,320,247	35,236,043	70,556,290
2009	34,302,024	34,462,881	68,764,905
2010	28,408,573	33,649,601	62,058,174
2011	28,895,763	32,999,387	61,895,150
2012	22,341,157	32,216,274	54,557,431
2013	23,181,550	31,605,266	54,786,816
2014	20,980,751	26,102,829	47,083,580
2015	26,600,000	19,829,850	46,429,850
2016	34,650,000	18,525,437	53,175,437
2017	33,860,000	16,949,492	50,809,492
2018	34,275,000	15,315,630	49,590,630
2019	34,665,000	13,654,025	48,319,025
2020	19,865,000	12,339,419	32,204,419
2021	19,965,000	11,395,740	31,360,740
2022	20,300,000	10,437,913	30,737,913
2023	20,615,000	9,462,601	30,077,601
2024	20,965,000	8,477,981	29,442,981
2025	17,445,000	7,478,656	24,923,656
2026	17,910,000	6,686,132	24,596,132
2027	18,690,000	5,861,498	24,551,498
2028	19,785,000	4,998,929	24,783,929
2029	20,605,000	4,085,579	24,690,579
2030	21,760,000	3,131,436	24,891,436
2031	11,855,000	2,123,898	13,978,898
2032	12,470,000	1,505,656	13,975,656
2033	10,740,000	913,544	11,653,544
2034	11,300,000	349,853	11,649,853
TOTAL [1][2]	$701,504,998	$483,102,923	$1,184,607,921

[1] Totals reflect rounding to nearest dollar.

[2] For purposes of this table, the interest payments on the Lease Revenue Bonds, Series 2000-1, 2, 3 (Moscone Center Expansion Project) are assumed to be 4.00% - the approximate historical average of the Bond Market Association Index plus a spread. These bonds are in variable rate mode.

Source: Office of Public Finance, City and County of San Francisco.

The City electorate has approved several lease revenue bond propositions in addition to those bonds that have already been issued. When issued, these voter-approved lease revenue bonds will be repaid from lease payments made from the City's General Fund. The following lease programs have remaining authorization:

In 1989, voters approved Proposition F, which authorizes the City to lease finance (without limitation as to maximum aggregate par amount) the construction of new parking facilities, including garages and surface lots, in eight of the City's neighborhoods. In July 2000, the City issued $8.2 million in lease revenue bonds to finance the construction of North Beach Parking Garage, which was opened in February 2002. There is no immediate plan to issue any more series of bonds under Proposition F.

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed $20.0 million, such amount increasing by five percent each fiscal year. As of April 30, 2005, the total authorized amount for such financings was $39.6 million. The total principal amount outstanding as of April 30, 2005 was $18.2 million. It is anticipated that the Corporation will issue approximately $11.0 million in equipment lease revenue bonds under this authorization in October 2005.

In 1994, voters approved Proposition B, which authorized the issuance of up to $60.0 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued $22.6 million and $23.3 million of Proposition B lease revenue bonds, respectively, but the Corporation has no current plans to utilize the remaining $14.0 million in authorization.

In June 1997, voters approved Proposition D, which authorized the issuance of up to $100.0 million in lease revenue bonds for the construction of a new football stadium at Candlestick Point, the home of the San Francisco 49ers football team. If issued, the $100.0 million of lease revenue bonds would be the City's contribution toward the total cost of the stadium project and the 49ers would be responsible for paying the remaining cost of the stadium construction project. The City has no current timetable for issuance of the Proposition D bonds.

On March 7, 2000 voters approved Proposition C which extended a two and one half cent per $100 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the Open Space Fund). Proposition C also authorizes the issuance of revenue bonds or other forms of indebtedness secured by the Open Space Fund. The City intends to sell up to $27.0 million of such Open Space Fund lease revenue bonds in January 2006.

Overlapping Debt

In November 2001, voters approved Proposition A. Proposition A authorizes the issuance of general obligation bonds up to $195.0 million to finance construction of new Chinatown and North Beach campuses of the San Francisco Community College District (the "SFCCD") and to make improvements to existing facilities. The SFCCD issued $38.0 million of such authorization in March 2002 and $110.0 million in October 2004. It is anticipated that SFCCD will issue approximately $47.0 million of such authorization in June 2006.

On November 4, 2003, voters approved Proposition A. Proposition A authorized the San Francisco Unified School District (the "SFUSD") to issue up to $295.0 million of general obligation bonds to repair and rehabilitate its facilities. The SFUSD issued $58.0 million of such authorization in October 2004. It is anticipated that SFUSD will issue approximately $130.0 million of such authorization in September 2005.

On November 2, 2004, voters approved Proposition AA. Proposition AA authorizes the Bay Area Rapid Transit District ("BART") to issue general obligation bonds in series over time in an aggregate principal amount not to exceed $980.0 million to strengthen tunnels, bridges, overhead tracks and the underwater Transbay Tube for BART facilities in Alameda and Contra Costa counties and the City and County of San Francisco. Of the $980.0 million, the City's portion is approximately 29% or $282.0 million. It is anticipated that BART will issue approximately $100.0 million of such authorization in the summer of 2005.

Labor Relations

The Mayor's fiscal year 2004-05 budget includes approximately 30,000 full time personnel, excluding employees in the San Francisco Unified School District, San Francisco Community College District, and San Francisco Superior Court. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union (Locals 250, 535 and 790); International Federation of Professional and Technical Engineers (Local 21); and unions representing police, fire, deputy sheriffs and transit workers.

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law and Charter. Except for nurses, transit workers, and a few hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through a final and binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final unless legally challenged. Strikes by City employees are prohibited, according to the Charter. Since 1976, no City employees have gone on a union-authorized strike.

Wages, hours and working conditions of nurses and transit workers are not subject to interest arbitration, but are subject to Charter-mandated economic caps.

The City's employee selection procedures are established and maintained through a civil service system. In general, selection procedures and other "merit system" issues are not subject to arbitration. However, disciplinary actions are generally subject to grievance arbitration, with the exception of police and fire employees.

The City's retirement benefits are established directly by the voters, rather than through the regular collective bargaining process; most changes to retirement benefit formulae require a voter-approved Charter amendment. Currently, most miscellaneous employees are in a "2% at 60" plan, and the uniformed police and fire employees are in a "3% at 55" plan.

In 2003, the City negotiated two-year successor agreements (July 1, 2003 through June 30, 2005) with all groups covered under Charter Section A8.409. Most of these agreements provided for a limited reopener negotiation in 2004 to allow the parties to address any changes to the State and local economy, while some of them had no reopener provision. Almost all of the groups that had reopener negotiations in 2004 agreed to a one-year contract extension to June 30, 2006. In response to the City's financial crisis, the 2003-2006 collective bargaining agreements provide that employees will continue to pay the 7.5% employee contribution to their retirement plans for fiscal years 2004-05 and 2005-06. In recognition of the employees resuming payment of their retirement contribution, the City will provide additional floating holidays. Additionally, employees will receive some general wage increases in the fiscal year 2005-06, the final year of the contract. A few collective bargaining agreements vary slightly from the general pattern, but generate the same net cost savings to the City through June 30, 2006.

The City is currently negotiating nine labor agreements that are due to expire on June 30, 2005. These groups include Staff Nurses, Nurse Managers, Automotive Machinists, Claims Investigators, Attorneys, Deputy Sheriffs, Institutional Police, Probation Officers, and Interns and Residents.

Of the unions covered under Charter Section A8.590-1, the City continues negotiations with the Paramedics, whose contract expires on June 30, 2005. The Police, Police Management, Fire and Fire Management contracts do not have reopener provisions and will expire on June 30, 2007.

Pursuant to Charter Section 8A.104, the Municipal Transportation Agency ("MTA") is responsible for negotiating contracts for the transit operators and employees in service critical bargaining units. These contracts are subject to approval by the MTA Board. The current contract covering transit operators expires on June 30, 2008.

For the labor contracts expiring on June 30, 2006, the City anticipates commencing those successor negotiations no later than December 1, 2005.

In addition, the City adopts an annual "Unrepresented Employees' Ordinance" for employees who are not exclusively represented by a union. As with the negotiated labor agreements, the present ordinance, for fiscal year 2004-2005 also provides for unrepresented employees to continue payment of the employee contribution to their retirement plans and to receive additional floating holidays. The City is currently in the process of preparing the ordinance for fiscal year 2005-06.

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO

Employee Organizations as of April 30, 2005

Organization	Budgeted Positions	Expiration Date of MOU
Automotive Machinists, Local 1414	414	June 30, 2005
Bricklayers, Local 3/Hod Carriers, Local 36	17	June 30, 2006
Building Inspectors Association	72	June 30, 2006
Carpenters, Local 22	106	June 30, 2006
CIR-SEIU (Interns & Residents)	204	June 30, 2005
Cement Masons, Local 580	24	June 30, 2006
Deputy Sheriffs Association	865	June 30, 2005
District Attorney Investigators Association	67	June 30, 2006
Electrical Workers, Local 6	785	June 30, 2006
Glaziers, Local 718	12	June 30, 2006
International Alliance of Theatrical Stage Employees, Local 16	14	June 30, 2006
Ironworkers, Local 377	18	June 30, 2006
Laborers International Union, Local 261	1,052	June 30, 2006
Municipal Attorneys' Association	413	June 30, 2005
Municipal Executives Association	863	June 30, 2006
MEA - Police Management	2	June 30, 2007
MEA - Fire Management	8	June 30, 2007
Operating Engineers, Local 3	60	June 30, 2006
Painters, Local 4	105	June 30, 2006
Pile Drivers, Local 34	17	June 30, 2006
Plumbers, Local 38	336	June 30, 2006
Probation Officers Association	150	June 30, 2005
Professional & Technical Engineers, Local 21	4,012	June 30, 2006
Roofers, Local 40	13	June 30, 2006
S.F. Institutional Police Officers Association	4	June 30, 2005
S.F. Firefighters, Local 798	1,730	June 30, 2007
S.F. Police Officers Association	2,498	June 30, 2007
SEIU - UHW (250)	1,816	June 30, 2006
SEIU, Local 535	1,422	June 30, 2006
SEIU, Local 790	7,356	June 30, 2006
SEIU, Local 790 (Staff Nurse)	1,445	June 30, 2005
SEIU, Local 790 (H-1 Rescue Paramedics)	20	June 30, 2005
Sheet Metal Workers, Local 104	48	June 30, 2006
Stationary Engineers, Local 39	629	June 30, 2006
Supervising Probation Officers, Operating Engineers, Local 3	19	June 30, 2006
Teamsters, Local 350	2	June 30, 2006
Teamsters, Local 853	162	June 30, 2006
Teamsters, Local 856 (multi-unit)	117	June 30, 2006
Teamsters, Local 856 (Supervising Nurses)	128	June 30, 2005
TWU, Local 200 (SEAM multi-unit & claims)	303	June 30, 2005
TWU, Local 250-A TWU - Auto Service Workers	145	June 30, 2006
TWU, Local 250-A TWU - Miscellaneous	93	June 30, 2006
TWU, Local 250-A TWU - Transit Operators	2,113	June 30, 2008
Union of American Physicians & Dentists	178	June 30, 2006
Unrepresented Employees	132	June 30, 2005
Unrepresented Employees	29,987 [1]	June 30, 2005

[1] Budgeted positions do not include SFUSD, SFCCD, or Superior Court personnel.

Source: Department of Human Resources - Employee Relations Division, City and County of San Francisco.

Risk Management

The City self-insures the majority of its property, liability and workers' compensation risk exposures. Each year, funds for anticipated claim payments, based on history and outstanding cases expected to be closed in that year, are included in the current budget. The vast majority of the City's insurance is purchased for the Enterprise fund and other departments (SFO, Municipal Railway, Public Utilities Commission, the Port and Convention Facilities). The remainder of the insured program is made up of insurance for General Fund departments required to provide coverage for bond-financed facilities, coverage for art at City-owned museums and statutory requirements for bonding of various public officials.

The City allocates workers' compensation costs to departments according to a formula based on claims, payment history and payroll. Programs are being developed and implemented to lower the workers' compensation costs to the City. These programs focus on accident prevention, investigation and duty modification of injured employees with medical restrictions so they can return to work as early as possible.

Retirement System

The City Employee's Retirement System (the "Retirement System") was established in April 1922 and was constituted in its current form by the 1932 charter. The Retirement System is administered by the Retirement Board consisting of seven members, three appointed by the Mayor, three elected from among the members of the Retirement System, and a member of the Board appointed by the President of the Board, who serves ex-officio as a voting member. To aid in the administration of the Retirement System, the Retirement Board appoints an Actuary and an Executive Director. The Executive Director's responsibility extends to all divisions of the system consisting of Administration, Investment, Retirement Services/Accounting, and Deferred Compensation.

The Retirement System estimates that the total active membership as of June 30, 2004 was 33,382, including 995 vested members and 728 reciprocal members, compared to 34,158 members a year earlier. The total new enrollees for fiscal year 2003-04 were approximately 1,356. Checks are mailed to approximately 18,774 benefit recipients monthly.

Net assets held in trust for pension benefits by the Retirement System as of June 30, 2004 were $11.9 billion compared to $10.5 billion as of June 30, 2003. As of June 30, 2004, the actuarial accrued liability was $10.9 billion and the actuarial value of assets was $11.3 billion, reflecting funding at 104%.

Table A-15 shows Retirement System actual contributions for fiscal years 1999-00 through 2003-04.

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO
Employee Retirement System (000s)
Fiscal Years 2000-01 through 2003-04

Fiscal Years Ending June 30	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Percent Funded	Employee & Employer Contribution [1]
2000	$ 12,931,306	$ 10,076,469	$ 7,258,394	138.8	$ 132,761
2001	11,246,080	10,797,024	8,371,843	129.0	145,203
2002	10,415,950	11,102,516	9,415,905	118.0	155,918
2003	10,533,013	11,173,636	10,249,896	109.0	182,069
2004	11,907,358	11,299,997	10,885,455	104.0	170,550

[1] For fiscal years 2000-01 through 2003-04, the City paid no employer contribution. However, based on the Retirement Board's Actuarial Valuation for July 1, 2003, employer contributions have resumed at 4.48% of covered payroll beginning fiscal year 2004-05.

Sources: SFERS' audited financial statements and supplemental schedules June 30, 2004 and 2003.
SFERS' Actuarial Valuation report as of July 1, 2004 and July 2003.

The assets of the Retirement System are invested in a broadly diversified manner including both domestic and international securities. In addition to U.S. equities and fixed income securities, the fund holds international equities, global sovereign debt, domestic real estate and an array of alternative investments including venture capital limited partnerships. The investments are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in various areas of investments.

Actuarial valuation of the Retirement System is a joint effort of the Retirement System and an outside actuarial firm employed under contract. A valuation of the Retirement System is conducted each year and an experience study is performed periodically. The latest report as of June 30, 2004 was issued in February 2005.

In November 1980, the voters of San Francisco adopted a change in the method through which the liabilities of the Retirement System are funded. That method is the entry age normal cost method with a level percentage supplemental cost element (supplemental costs to be fully amortized over no more than 20 years). Actuarial gains and losses are amortized over a 15-year period. Assets are calculated based on a five-year phase-in of realized and unrealized capital gains and losses.

From fiscal year 1996-97 through fiscal year 2003-04, the City's dollar contribution decreased to zero due to lowered funding requirements as determined by the actuary of the Retirement System. However, in fiscal year 2004-05, the City is contributing an estimated $96.6 million in employer contribution, which is 4.48% of pensionable salary. This includes $44.6 million in General Fund contribution.

Health Care Benefits

Health care benefits for active City employees, retired employees, and surviving spouses are administered by the City's Health Service System (the "Health Service System"). The System also administers heath care benefits to the San Francisco Unified School District and San Francisco Community College District. Annual benefits costs are funded on a current basis primarily from contributions made during that year by the City, its active employees, retired employees and surviving spouses. The City contributions are funded from available resources on a pay-as-you-go basis. For Fiscal Year 2003-2004, the City contributed approximately $279 million for benefit costs. Of this amount, approximately $72.2 million were for post-retirement health care benefits for approximately 14,500 retired City employees. The contributions of the City to the Health Service System are determined by a Charter provision based on similar contributions made by the ten most populous counties in the State, not including the City and County of San Francisco.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45 ("GASB 45"), which addresses how state and local governments should account for and report their costs and obligations related to post-employment health care and other non-pension benefits ("OPEB"). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods on the income statement. GASB 45 also established disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. These disclosure requirements will be effective for the City's fiscal year ending June 30, 2008. GASB 45 is likely to result in a substantial increase in the annual expense recognized by the City for post-retirement health care benefits. The City has retained the services of an actuary to determine the extent of the City's OPEB liability. The amount of the liability and the increase in the annual expense to be recognized has not yet been determined by the City.

The Health Service System issues a publicly available financial report that includes financial statements for the Health Service Trust Fund. The report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, California 94103, or by calling (415) 554-1727.

APPENDIX B

CITY AND COUNTY OF SAN FRANCISCO ECONOMY AND GENERAL INFORMATION

Area and Economy

The corporate limits of the City and County of San Francisco (the "City") encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the "Bay"). The City is located on a peninsula bounded by the Pacific Ocean to the west, the Bay on the east, the entrance to the Bay and the Golden Gate Bridge to the north and San Mateo County to the south.

The City is the economic center of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (the "Bay Area"). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Its major industries include heavy manufacturing, high technology, semi-conductor manufacturing, petroleum refining, biotechnology, food processing and production and fabrication of electronics and aerospace equipment. Non-manufacturing industries, including convention and tourism, finance and international and wholesale trade, are characteristic of the City and are also major contributors to economic activity within the Bay Area.

Population and Income

The City had a population estimated by the State of California (the "State") Department of Finance Demographic Research Unit, at 792,700 as of January 2004, ranking it the fourth largest city in California after Los Angeles, San Diego and San Jose. The table below reflects the population and per capita income of the City and the State between 2000 and 2004.

TABLE B-1

POPULATION AND INCOME
2000 - 2004

Year	City and County of San Francisco	State of California	San Francisco Per Capita Income	California Per Capita Income
2000	785,700	34,385,000	$57,414	$32,225
2001	793,700	35,037,000	55,816	32,702
2002	793,633	35,301,000	54,369	32,989
2003	789,700	35,612,000	N/A *	33,749
2004	792,700	36,144,000	N/A *	N/A *

* Note: Information not available. County data are compiled from numerous sources by the U.S. Department of Commerce, Bureau of Economic Analysis and are typically released with a significant time lag.

Sources: State of California Department of Finance, Demographic and Finance Research Units; U.S. Department of Commerce, Bureau of Economic Analysis.

Conventions and Tourism

During the calendar year 2004 approximately 15.1 million people (118,600 average per day) visited the city, generating approximately $6.7 billion. On average, these visitors spent about $156 per day and stayed three to four nights.

Hotel occupancy rates in San Francisco averaged 73.2% in calendar year 2004, an increase of 7.6% over the previous year. Average daily San Francisco room rates increased about 1.7% to an annual average of $147, compared to the same period last year.

Although visitors who stay in San Francisco hotels accounted for only 35% of total out-of-town visitors, they generated 65% of total spending by visitors from outside the Bay Area. It is estimated that 40% of visitors to the City are on vacation, 35% are convention and trade show attendees, 22% are individual business travelers and the remaining 3% are en route elsewhere. International visitors make up 36% of all visitors. Approximately 45% of the City's international visitors are from Europe and the United Kingdom, 31% are from Asia, 9% are from Canada, 5% are from Australia and New Zealand, 5% are from Central and South America, 3% are from Mexico, and 2% are from Africa and the Middle East. The following illustrates hotel occupancy and related spending from calendar years 2000 through 2004.

TABLE B-2

CITY AND COUNTY OF SAN FRANCISCO
San Francisco Overnight Hotel Guests ($000s)

Calendar Year	Annual Average Hotel Occupancy	Visitors Staying in Hotels or Motels	Hotel Visitor Spending
2000	81.9%	4,300	$4,288,000
2001	67.0	3,550	3,700,000
2002	65.4	3,470	3,500,000
2003	68.1	3,860	3,680,000
2004	73.2	4,200	4,070,000

Source: San Francisco Convention & Visitor Bureau.

According to the San Francisco Convention and Visitor Bureau, as of April 1, 2004, convention business is almost at full capacity at the Moscone Convention Center and is at strong levels at individual hotels providing self-contained convention services. The City completed construction of an expansion to the Moscone Convention facilities in Spring 2003. With the expansion, the Moscone Convention Centers offer over 700,000 square feet of exhibit space covering more than 20 acres on three adjacent blocks.

Employment

The City has the benefit of a highly skilled, educated and professional labor force. Key industries include tourism, real estate, banking and finance, retailing, apparel design and manufacturing. Emerging industries include multimedia and bioscience. According to the State Employment Development Department, the unemployment rate for San Francisco was 5.7% for year-end 2004, a nearly 20% decline from 2003. This rate is in comparison with an adjusted unemployment rate of 6.1% for California and 5.5% for the nation during the same period.

TABLE B-3

CITY AND COUNTY OF SAN FRANCISCO

Reported Employment by Land Use Activities 1999-2003 [1]

	1999	2000	*2001	*2002 (2)	*2003 (2)
Office	211,499	224,167	236,959	213,514	201,492
Retail	97,159	103,508	101,505	96,591	95,599
Industrial	120,922	119,922	107,837	97,860	93,726
Hotel	19,522	18,862	17,962	16,477	17,438
Cultural/Institutional	142,064	140,573	122,222	122,254	124,882
Other	30	1,307	6	165	65
Total	591,196	608,339	586,491	546,861	533,202

* 2001 - 2003 Sectoral breakdowns except hotel are not comparable with 2000 and earlier breakdowns. This reflects Employment Development Department classification system.

[1] Most recent Employment Development Department data available.

[2] 2002 and 2003 Office Land use activity group includes Government employment.

Source: San Francisco Planning Department- California Employment Development Department.

Based on 2003 estimates, total citywide employment is 533,200 indicating a loss of approximately 3% of jobs from 2002.

Table B-4 below lists the ten largest employers in the City as of December 2004.

TABLE B-4

CITY AND COUNTY OF SAN FRANCISCO

Largest Employers in San Francisco

As of December 31, 2004

Employer	Number of Employees	Nature of Business
City and County of San Francisco	28,732	Local government
University of California, San Francisco	18,600	Health services
Wells Fargo & Co. Inc.	7,275	Banks
San Francisco Unified School District	7,208	Education
State of California	7,048	State government
California Pacific Medical Center	5,000	Health care
United States Postal Service, San Francisco District	4,886	Mail delivery
PG&E Corp.	4,850	Energy
Gap Inc	4,084	Retail
San Francisco Municipal Railway (Muni)	3,828	Transit agency

Source: San Francisco Business Times, Book of Lists 2005.

Taxable Sales

The following annual table reflects a breakdown of taxable sales for the City from 1999 to 2003. Taxable sales information for 2004 is not yet available. Total retail sales increased in 2003 by approximately $125.5 million compared to 2002. When business and personal services and other outlet sales are included, taxable sales decreased by approximately $91.9 million in 2003.

TABLE B-5

CITY AND COUNTY OF SAN FRANCISCO
Taxable Sales 1999 - 2003
($000s)

	1999	2000	2001	2002	2003[1]
Retail Stores					
Apparel	$722,597	$792,508	$749,391	$737,396	$760,715
General Merchandise	1,096,334	1,166,524	1,078,664	1,051,122	1,065,160
Food Stores	392,569	416,735	413,650	403,163	405,673
Speciality Stores	1,961,628	2,277,432	1,998,450	1,889,144	1,910,757
Eating/Drinking	1,723,368	1,977,854	1,883,762	1,844,385	1,879,879
Household	572,425	637,662	513,618	459,529	484,455
Building Materials	292,107	321,632	313,277	310,111	320,316
Automotive	775,996	1,006,818	889,936	803,109	804,964
Other Retail Stores	139,066	153,291	149,638	143,999	135,582
Retail Stores Total	$7,676,090	$8,750,456	$7,990,386	$7,641,958	$7,767,501
Business and					
Personal Services	$1,063,729	$1,226,650	$1,107,028	$1,043,019	$945,689
All Other Outlets	3,596,942	4,112,820	3,357,822	2,904,463	2,784,369
Total All Outlets	$12,336,761	$14,089,926	$12,455,236	$11,589,440	$11,497,559

[1] Most recent annual data available.

Source: California State Board of Equalization - Taxable Sales in California (Sales & Use Tax) Annual Reports.

Building Activity

Table B-6 shows a summary of building activity in the City for fiscal years 1999-00 through 2003-04, during which time approximately 11,906 housing units were authorized in the City (both market rate and "affordable housing"). The total value of building permits was $430.0 million in fiscal year 2003-04.

TABLE B-6

CITY AND COUNTY OF SAN FRANCISCO
Building Activity 2000-2004 ($000s)

Fiscal Year Ended June 30	Authorized New Dwelling Units	Value of Building Permits Residential	Non-Residential	Total
2000	3,058	$305,828	$623,257	$929,085
2001	2,570	381,623	725,313	1,106,936
2002	3,273	299,028	364,801	663,829
2003	1,279	214,244	57,455	271,699
2004	1,726	307,603	122,377	429,980

Source: San Francisco Department of Building Inspection, Central Permit Bureau.

Banking and Finance

The City is a leading center for financial activity. The headquarters of the Twelfth Federal Reserve District is located in the City, as are the headquarters of the Eleventh District Federal Home Loan Bank and the regional Office of Thrift Supervision. Wells Fargo Bank, First Republic Bank, Union Bank of California, United Commercial Bank, Bank of the Orient and Charles Schwab & Co., the nation's largest discount broker, are headquartered in the City. Investment banks located in the City include Banc of America Securities LLC, Deutsche Banc Alex Brown, Thomas Weisel Partners LLC, and Pacific Growth Equities.

Commercial Real Estate

According to the Mid First Quarter 2005 Report from CB Richard Ellis, the San Francisco office market is off to a positive start in 2005. Class A vacancy rate has decreased by 120 basis points to 16%, and availability is down 100 basis points to 18.8%. The average Class A asking rent City wide is $29.60, with Financial District average Class A at $33.00, and Civic Center average Class A asking rate at $24.50.

Major Development Projects

The downtown Union Square area is the City's principal retail area and includes Macy's, Neiman Marcus, Saks Fifth Avenue, Levi's, NikeTown, Disney, Crate and Barrel, Borders Books, Nordstrom, Williams Sonoma and Virgin Records. The recent completion of the Union Square Improvement Project, including reconstruction of the Union Square Garage, has benefited the area in terms of accessibility. The refurbished Union Square Park is now a hub for activities and events, gatherings, rallies, performances, and art exhibits.

The construction of the Westfield San Francisco Center (including Bloomingdale's), on the site of the former Emporium building between Market Street and Mission Street and 4th and 5th Streets, is currently underway. The estimated cost of this project is $410.0 million. The 1.2 million square foot retail, office, and entertainment complex is expected to be completed in 2006. Upon completion, the Westfield San Francisco Center is expected to generate additional economic activity to the developing area resulting in an estimated $9.7 million in tax revenues. The Center will also provide approximately 1,000 construction jobs and 1,900 permanent jobs.

Another commercial development project planned in the City is the Fillmore Renaissance Center, a mixed-use commercial and residential project at Fillmore and Eddy Streets in the Western Addition area of the City known as the Fillmore Jazz Preservation District. The project will include a Fillmore branch of Oakland's Yoshi's Jazz Club & Restaurant, a variety of restaurants and lounges, approximately eighty condominium units (15% of which are designated "affordable") and a public parking garage.

Development is continuing at the Mission Bay redevelopment project area, portions of which are owned by the City and the Port of San Francisco. The development utilizes 303 acres of land and consists of 6,000 residential units, (28% of which will be affordable units), office and commercial space, 863,637 square feet of retail space, a new public school, 51-acres of parks and recreational areas, and a 500-room hotel. In addition, the University of California is constructing a 2,650,000 square foot biotechnology campus on a 43-acre site in Mission Bay.

The Octavia Boulevard Project, begun in 2003, will be a ground-level six-lane boulevard between Market and Hayes Streets. The redevelopment of this roadway system has opened up approximately 7.2 acres of property to be used for the construction of 750-900 housing units.

Redevelopment of the former Hunters Point Naval Shipyard on San Francisco's southern waterfront is expected to begin in 2005. The 90-acre first phase of development is expected to comprise 1,600 housing units, 300,000 square feet of commercial uses, 34 acres of open space and other community amenities. Future phases of this 500-acre redevelopment effort will include additional residential and commercial development.

Transportation Facilities

San Francisco International Airport

San Francisco International Airport ("SFO"), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five member Commission is responsible for the operation and management of SFO. SFO is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and San Francisco Bay. According to final data for calendar year 2003 from the Airports Council International (the "ACI"), SFO is one of the largest airports in the United States in terms of passengers. SFO is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic. In fiscal 2003-04, the Airport served over 30 million passengers and handled 552.1 metric tons of cargo.

During fiscal year 2003-04, 58 airlines served SFO with non-stop and one-stop service to 92 destinations in the United States. Twenty-nine airlines provided nonstop scheduled passenger service to over 39 international destinations.

United Airlines operates one of its five major U.S. hubs at SFO. During Fiscal Year 2003-04, United Airlines handled approximately 43% of the total enplaned passengers at SFO and accounted for approximately 26% of SFO's total revenues. On December 9, 2002, UAL Corp. ("UAL"), the parent company of United Airlines, and numerous of its subsidiaries including United Airlines, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Since the Chapter 11 filing, United Airlines has continued flight operations at SFO and since January 1, 2003 it has remained current with its payments to SFO for rents and landing fees.

The San Francisco Bay Area Rapid Transit District ("BART") extension to SFO opened for full operation on June 22, 2003. The extension creates a convenient connection between SFO and the greater San Francisco Bay Area served by BART. An intermodal station in the City of Millbrae provides a direct link to Caltrain offering additional transit options and connection to the southern parts of the Bay Area. Access from the BART station throughout SFO is enhanced by the AirTrain system, a shuttle train that connects airport terminals.

The AirTrain system, which opened for full operation on March 24, 2003, provides transit service over a "terminal loop" to serve the terminal complex and over a "north corridor loop" to serve the rental car facility and other locations situated north of the terminal complex. The AirTrain stations are located at the north and south sides of the International Terminal, Terminals 1, 2 and 3, at the two short-term International Terminal Complex (“ITC”) parking garages, on Lot “D” to serve the rental car facility, and on McDonnell Road to serve the West Field area of SFO.

Table B-7 presents certain data regarding SFO for the last five fiscal years.

TABLE B-7

SAN FRANCISCO INTERNATIONAL AIRPORT
Passenger, Cargo and Mail Data for
Fiscal Years ending June 30, 2000 through 2004

	Passengers		**Cargo Traffic**	
Fiscal year Ended June 30	Enplanements and Deplanements	Annual Percent Change	Freight and Express Air (Metric Tons)	U.S. and Foreign Mail (Metric Tons)
2000	40,238,576	2.8%	680,051	190,579
2001	38,735,076	-3.7	621,434	150,538
2002	30,932,889	-20.1	467,301	93,953
2003	29,174,229	-5.7	517,420	89,533
2004	30,771,464	5.5	472,953	79,154

Source: San Francisco Airport Commission.

Port of San Francisco

The Port of San Francisco (the “Port”) consists of 7.5 miles of San Francisco Bay waterfront which are held in “public trust” on behalf of all the people of California. The State transferred responsibility for the Port to the City in 1968. The Port is committed to promoting a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities, as well as protecting the natural resources of the waterfront and developing recreational facilities for public use.

The Port is governed by a five-member Port Commission which is responsible for the operation, management, development and regulation of the Port. All revenues generated by the Port are to be used for Port purposes only. The Port receives no operating subsidies from the City, and the Port has no taxing power.

The Port posted an increase in net assets of $7.9 million for fiscal year ending June 30, 2004. Port properties generated $56.7 million in operating revenue in fiscal year 2003-04 as shown in the table below.

TABLE B-8

PORT OF SAN FRANCISCO
FISCAL YEARS 2003 AND 2004 REVENUES
($000s)

Business Line	FY 02-03 Audited Revenue	Percentage of 2003 Revenue	FY 03-04 Audited Revenue	Percentage of 2004 Revenue
Commercial & Industrial Rent	$32,037	58.8%	$33,489	59.1%
Parking	7,466	13.7	8,154	14.4
Cargo	5,659	10.4	5,561	9.8
Fishing	1,554	2.8	1,454	2.6
Ship Repair	919	1.7	867	1.5
Harbor Services	967	1.8	991	1.7
Cruise	963	1.8	1,578	2.8
Other Maritime	1,413	2.6	1,319	2.3
Other	3,489	6.4	3,289	5.8
TOTAL	$54,467	100.0%	$56,702	100.0%

Source: Port of San Francisco Audited Financial Statements.

In June 1997, the Port Commission adopted a Waterfront Land Use Plan (the "Port Plan") which established the framework for determining acceptable uses for Port property. The Port Plan calls for a wide variety of land uses which retain and expand historic maritime activities at the Port, provide revenue to support new maritime and public improvements, and significantly increase public access.

As a result of the finalization of the Port Plan, there are currently several major development Port projects in negotiation and/or construction including: a mixed use recreation and historic preservation project at Piers 27-31; a hotel development at the corner of Broadway and the Embarcadero; a mixed use historic preservation and reuse of Piers 1½-5; an international cruise and mixed use office/retail complex in the South Beach area of San Francisco that will involve the construction of a condominium tower project, a new cruise terminal, an office and retail development, and a new waterfront park known as Brannan Street Wharf.

A $70 million renovation of the Ferry Building and Rincon Park, a two acre park and public open space located on Port property, were completed in fiscal year 2002-03. The park was a collaborative effort of the Port, the San Francisco Redevelopment Agency, and Gap Inc.

The Port is also making various security improvements to its Pier 35 Cruise Terminal, Downtown Ferry Terminal, and Pier 80 Cargo Terminal facilities. Funding for these improvements is from a combination of Transportation Security Act grants and Port funds.

Other Transportation Facilities

The San Francisco Bay is surrounded by nine counties comprising the Bay Area. Although the Bay itself creates a natural barrier for transportation throughout the region, several bridges, highways and public transportation systems connect the counties. The majority of the transportation modes throughout the Bay utilize San Francisco as a hub, and provide access into the City itself for commuting, entertainment, shopping and other activities. The major transportation facilities connecting the City to the remainder of the region include the Golden Gate and Bay Bridges, the Bay Area Rapid Transit rail line, CalTrain, the Valley Transportation Authority, and the Alameda-Contra Costa, San Mateo, Santa Clara and Golden Gate Transit Districts' bus lines. Public and private companies also provide ferry service across the Bay.

Other transportation services connect the Bay Area to the State, national and global economy. In addition to the San Francisco International Airport, the San Francisco Bay Area is served by two other major airports: the Oakland International Airport in Alameda County, and the San Jose International Airport in Santa Clara County. These airports provide the Bay Area's air passengers with service to all major domestic cities and many international cities and are important cargo transportation facilities.

The Port of Oakland is an important cargo and transportation facility for the Bay Area providing a strong link to the Pacific Rim. The Port of Oakland is served by three major railroads with rail lines and/or connections to the Midwest and beyond.

Education

The City is served by the San Francisco Unified School District (the "SFUSD"). The SFUSD has a board of seven members who are elected Citywide. Schools within the SFUSD are financed from available property taxes and State, Federal and local funds. The SFUSD operates thirty-six Child Development Centers serving pre kindergarten and school age children; seventy-six elementary schools including sixty-nine K-5 elementary schools, seven K-8 elementary schools and one charter K-8, eighteen middle schools (grades 6-8), two charter grade 5-8 schools, seventeen senior high schools, including fourteen schools serving grades 9-12, six charter grade 9-12 schools; two continuation schools, one independent study alternative high school and various county community schools.

Colleges and Universities

Within the City, the University of San Francisco and California State University at San Francisco offer full four-year degree programs of study as well as graduate degree programs. The University of California, San Francisco is a health science campus consisting of the schools of medicine, dentistry, nursing, pharmacy and graduate programs in health science. The Hastings College of the Law is affiliated with the University of California. The University of the Pacific's School of Dentistry and Golden Gate University are also located in the City. City College of San Francisco offers two years of college-level study leading to associate degrees.

The nine-county Bay Area region includes approximately 20 public and private colleges and universities. Most notable among them are the University of California, Berkeley and Stanford University. Both institutions offer full curricula leading to bachelors, masters and doctoral degrees, and are known worldwide for their contributions to higher education.

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APPENDIX C

EXCERPTS FROM
COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE CITY AND COUNTY OF SAN FRANCISCO
FOR THE YEAR ENDED JUNE 30, 2004[†]

[†] Includes all material listed on the City's Comprehensive Annual Financial Report's Table of Contents through Note 17 of the Notes to Basic Financial Statements. The City's Comprehensive Annual Financial Report may be reviewed on line or downloaded from the City Controller's website at http://www.sfgov.org/controller. Information on the website is not incorporated herein by reference.

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CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Comprehensive Annual Financial Report
Year ended June 30, 2004

Prepared by:
Office of the Controller

Edward Harrington
Controller

CITY AND COUNTY OF SAN FRANCISCO

COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004

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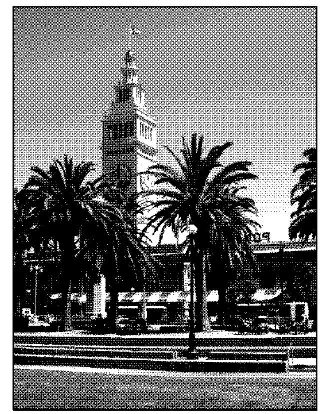


November 30, 2004

The Honorable Mayor Gavin Newsom
The Honorable Members of the Board of Supervisors
City and County of San Francisco
San Francisco, California

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City and County of San Francisco, California (the City) for the fiscal year ended June 30, 2004, with the Independent Auditor's Report, submitted in compliance with City Charter Sections 2.115 and 3.105 and California Government Code Sections 25250 and 25253. The CAFR has been prepared by the Controller's Office in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. I believe that the data, as presented, is accurate in all material respects; that its presentation fairly shows the financial position and the results of the City's operations as measured by the financial activity of its various funds; and that the included disclosures will provide the reader with an understanding of the City's financial affairs.

This is the fourth year the City prepares the CAFR using the new financial reporting requirements as prescribed by the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34). This GASB Statement requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of a Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

Our CAFR is divided into the following sections:

The Introductory Section includes information about the organizational structure of the City, the City's economy, major initiatives, status of City services, and cash management.

The Financial Section is prepared in accordance with the GASB 34 requirements by including the MD&A, the Basic Financial Statements including notes and the Required Supplementary Information. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present the financial information of each of the City's major funds, as well as non-major governmental, fiduciary and other funds. Also included in this section is the Independent Auditor's Report on the basic financial statements.

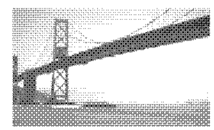
The Statistical Section includes tables containing historical financial data, debt statistics, and miscellaneous social and economic data of the City that are of interest to potential investors in our bonds and to other readers. The data includes ten–year revenue and expenditure information on an inflation-adjusted basis.

THE REPORTING ENTITY AND ITS SERVICES

The City and County of San Francisco (City), established by Charter in 1850, is a legal subdivision of the State of California with the governmental powers of both a city and a county under California law. The City's powers are exercised through a Board of Supervisors serving as the legislative authority, and a Mayor and other independent elected officials serving as the executive authority. The services provided by the City include public protection, public transportation, construction and maintenance of all public facilities, water, parks, public health systems, social services, planning, tax collection, and many others.

This CAFR includes the financial activities of the primary government, which encompasses several enterprise activities, as well as all of its component units. Component units include legally separate entities for which the primary government is financially accountable and that have substantially the same board as the City or provide services entirely to the City. For reporting purposes the operations of the San Francisco County Transportation Authority, the San Francisco Parking Authority, and the San Francisco Finance Corporation are blended with the City. In addition, there are two component units, the San Francisco Redevelopment Agency and the Treasure Island Development Authority, which are legally separate entities but which have some financial interdependency with the City. For reporting purposes these entities are shown as discretely presented component units.

SAN FRANCISCO'S GOVERNMENT, ECONOMY AND OUTLOOK



San Francisco is the economic and cultural hub of the Bay Area. The county is geographically the smallest in California, occupying just forty-seven square miles of land, but is the most densely populated in the state. The population has been stable over the last year, growing by less than one percent, to approximately 792,700.[i] San Francisco is racially and ethnically diverse, with minority groups combining to represent just over 56 percent of the population and no single group forming a majority.[ii]

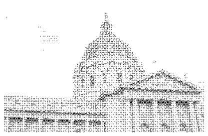
San Francisco is a charter city, exercising the powers and duties of both a city and county. The elected Mayor of San Francisco serves as the executive, and appoints the heads of most city departments. Many departments are also advised by commissions or boards whose members are appointed either by the Mayor, or, in some cases, by a combination of the Mayor, the Board of Supervisors, and other elected officials. Elected officials include the Assessor-Recorder, City Attorney, District Attorney, Public Defender, Sheriff and Treasurer. Beginning in November 2000, the Board of Supervisors was elected by district for the first time since the 1970s. There are eleven districts, with staggered elections for five and six seats at a time held in even numbered years. Board members serve four-year terms and any vacancies are filled by Mayoral appointment.

In 2001 the United States economy entered a multi-year downturn, with significant losses in the stock market, rising unemployment, and decreasing consumer confidence. With its high concentration of technology and internet companies, the Bay Area was hit hard by the economic slowdown. San Francisco lost approximately 65,000 to 75,000 jobs in the period from 2001 to 2003, nearly twice as many as were lost in the last significant recession of 1991 to 1993.[iii] These job losses pushed the unemployment rate to a peak of 7.9 percent in July 2002, however gradual improvement in the City's job picture has occurred in each of the last two fiscal years. By June of 2004, San Francisco's unemployment rate had decreased to 5.9 percent and, for the first time in two years, was slightly better than that of California as a whole at 6.4 percent.[iv] While the softening of the technology sector has significantly stalled the overall local economy, some professional services categories that are also critical to San Francisco's economy have displayed stability or growth during the period. Legal services, publishing, insurance, and securities, after experiencing some job losses, have improved to the point where these industries together now employ several thousand more people than during the economic peak of 2000.

San Francisco's downtown office real estate market was extremely competitive through the 1990s and vacancy rates dropped below one percent at some points. Matching the overall economic situation, this trend reversed in fiscal years 2000-2001 and 2001-2002, with vacancy rates rising into the 20 percent range. However by 2002-2003 the market had begun to stabilize and at the close of this fiscal year the overall vacancy rate was down from 17.1 percent in June 2003 to 15.4 percent in June 2004, including both direct and sublet space. Asking prices for office space rents as of June 2004[v] stood at an average of approximately $22 per square foot, down from the July 2000 high point of $80 per square foot. These substantially lower office rental rates have made it more economic to locate in San Francisco and have contributed to the recovery in professional service jobs in the City.

[i] Source: California Department of Finance
[ii] Source: United States Census
[iii] Source: San Francisco Quarterly Economic Briefing, April 2003
[iv] Source: Employment Development Department
[v] Source: Newmark, Office Market Report, Second Quarter, 2004
[vi] Source: San Francisco Quarterly Economic Briefing, April 2003

Despite weaknesses in areas of the economy, property values in San Francisco remain among the highest in the nation. Over the most recent ten year period, San Francisco's median home price has increased by nearly 96 percent and the Bay Area's ongoing housing need keeps upward pressure on the City's residential real estate market. Despite steady construction, including 1,726 new units of housing permitted during fiscal year 2004, a housing shortage persists. The gap between demand and supply has contributed to a worsening affordability gap in the City, with home ownership remaining out of reach for most residents and workers. As of June 2004, the median price for an average single family home in San Francisco had increased 15.4 percent from the prior year and stood at $665,000.[vii] As of July 2004, the average assessed valuation in the City stood at $313,000 for single family homes and $475,000 for condominiums. Average assessed valuations tend to be lower than market norms would indicate because the limits on property tax increases under California's Proposition 13 have generally motivated owners to buy and hold property. Partly due to these affordability hurdles and market conditions, 65 percent of the City's residents rent their homes, and only 35 percent own,[viii] substantially below the national average where 68 percent own their homes.[ix] Affordable housing continues to be built and developed in the City, funded in part by a $100 million general obligation bond issue approved by the voters in 1996. Since passage of the bond measure, bond proceeds have funded downpayment assistance loans to 261 first time homebuyers and financed the development of 2,176 affordable rental units and beds. However, the voters have twice rejected proposed new affordable housing bond authorizations in the elections of 2002 and 2004 and housing continues to be one of the City's significant challenges to development.



The City's property tax revenue, the single largest source of tax revenue for the City's general fund, grew in some cases by as much as 12 percent annually over the last five years, reflecting the steady rise in property values and prices during the time period. In fiscal year 2003-2004, this trend continued, with property tax revenues rising by approximately 5.4 percent. Trends in other sources of local tax revenue have been more typical of the downturn in the business cycle, with hotel room, sales, parking, and other local taxes decreasing as much as 30 percent in the period of steepest decline from the fiscal year 2000-2001 peak to fiscal year 2001-2002. Hotel room tax revenues exhibited among the most severe downturn, dropping from a $188 million high in fiscal year 2000-2001 to $129 million in fiscal year 2002-2003. Hotel tax revenue in fiscal year 2003-2004 recovered to the level of $148 million and budgeted growth of approximately six percent is forecast during fiscal year 2004-2005, which would mean revenues commensurate with the late 1990s levels. While recovery in this sector seems to be underway, the hotel tax trend of recent years nonetheless represents a significant loss of funding for local cultural institutions and general City services which the government has had to absorb since 2001.

Travel and tourism are among the main drivers of San Francisco's economy. The travel decline precipitated by the sluggish national economy was further exacerbated in the Bay Area by the war in Iraq and outbreaks of Sudden Acute Respiratory Syndrome in Asian nations directly linked to San Francisco by air and trade routes. However, there are now signs of a gradual recovery in San Francisco's tourism sector. At San Francisco International Airport (SFO) passenger traffic increased 6.4% from the previous fiscal year, with an increase of 5.7% in domestic volume and an increase of 8.9% in international volume. Passenger traffic has increased by 17% in total from the 2001 low point. The Convention and Visitors Bureau estimates that 14.29 million people visited San Francisco in calendar year 2003, a 4.1 percent increase from the year before. Visitor spending in the City totalled approximately $6.03 billion for the calendar year, up 1.9 percent from the 2002 level of $5.9 billion.[x] In the two years prior to the travel downturn, hotel occupancy rates in the City averaged around 80 percent. During calendar year 2003 this figure averaged 67.9 percent, a slight increase from the 64.6 percent rate in 2002. Occupancy rates for fiscal year 2004-2005 are forecast to improve somewhat with stronger scheduled convention business during the year.[xi]

[vii] Source: California Association of Realtors
[viii] Source: San Francisco Quarterly Economic Briefing, April 2003
[ix] Source: U.S. Census Bureau Housing Vacancy Survey Third Quarter 2003
[x] Source: San Francisco Convention and Visitor's Bureau
[xi] Source: PKF Consulting

MAJOR INITIATIVES AND ACHIEVEMENTS

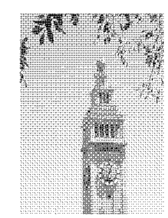
A number of significant initiatives, outlined below, are underway in San Francisco that will have a positive effect on the City's economic health and its ability to provide services to residents and businesses.

Economic Development

By a number of indicators, the San Francisco economy is slowly recovering from the losses of recent years, and changes over the most recent fiscal year include some new construction and business location developments. In November 2003, the $410 million Bloomingdale's project broke ground in downtown San Francisco, beginning construction of a 1.5 million square foot complex that will contain shops, restaurants, a market hall, and offices on the Market Street site of the former Emporium Building. The development is expected to create approximately 700 construction jobs and generate 1,900 new retail jobs when it opens in 2006. The Gymboree Corporation signed a long-term lease in March 2004 to relocate its corporate headquarters from Burlingame, California to San Francisco, which will bring approximately 350 employees to the City by the end of the calendar year. In September 2004, Gladstone Institutes, a biomedical research center specializing in Alzheimer's, HIV/AIDS and cardiovascular disease, moved into a new $72 million building in the Mission Bay area, becoming the first major non-University of California San Francisco enterprise in this developing region, with approximately 300 researchers and support staff now, and more than 500 staff planned for when growth is complete.

Preceding Gladstone, the largest of the planned medical research buildings in Mission Bay, the UCSF Genentech Hall, was opened in January 2004 and a second facility, the Genetics Development and Behavioral Sciences Building, was opened in March 2004. Overall housing and infrastructure development continue in Mission Bay—located south and east of downtown in an area of industrial buildings and former rail yards. Over the 20 to 30 year construction and development period of the Mission Bay neighborhood over 31,000 new permanent jobs are forecast. Mission Bay will eventually provide approximately 1,700 affordable housing units, over 50 acres of open space, a new public school, public library and new Fire and Police stations. To date, construction has been completed on 1,080 residential units, 55,000 square feet of neighborhood-serving retail, 510,000 square feet of commercial office space, and 555,000 square feet of life science research space and other facilities for the University of California San Francisco medical complex and related facilities.

The City reached a final agreement with the U.S. Navy in March 2004 to govern the transfer of the first 78 acres of the 500-acre Hunters Point Naval Shipyard to the City. Although the former naval facility was closed in 1974, transfer of the site to the City has been delayed as environmental cleanup and other hazard concerns were addressed. The first phase of the planned redevelopment will include 1,600 units of housing, with 32 percent set aside as affordable. In addition, 300,000 square feet of retail and commercial development are planned, along with a five-acre multi-purpose community campus and 34 acres of parks, recreation areas and open space. Approximately 250 construction jobs are forecast during the first phase of development with an additional 1,000 full-time jobs expected after the completion of Phase I in approximately five years.



In August 2003, the Port of San Francisco began a two-year, $44 million rehabilitation and development project for three of its historic piers, Piers 1½, 3, and 5. The project will include restaurants, office space, public access to the Bay, boat docks, and a water taxi landing. In March 2004, the Port began construction on the first phase of the International Cruise and Bryant Street Pier Project, a $400 million mixed-use project that will feature a 100,000 square foot state-of-the-art international cruise terminal, offices, retail space, 136 condominiums, and a new waterfront park. The new cruise terminal will be able to handle two large cruise ships simultaneously with thousands of passengers. Completion of the entire project is anticipated in 2008. The Port has seen a dramatic increase in passenger cruise activity and is projecting 2004 to be its busiest cruise season in history with 90 port calls and over 200,000 passengers expected.

A former bus layover yard is now being developed as the Mission & Steuart Hotel Project, a boutique 200-room hotel with restaurant and retail space on the ground floor. The hotel will be operated and maintained privately and is expected to provide the Municipal Transportation Agency an average of $4.79 million a year over the term of the 65-year lease, for a total of more than $300 million. Located near the foot of Market Street and across The Embarcadero from the recently reopened historic Ferry Building, the site will also include a rent-free location for a combination transit museum and retail shop to be operated by the Market Street Railway, a non-profit group that is dedicated to the acquisition, restoration, and operation of historic transit vehicles in San Francisco. The Project will integrate stops and passenger shelters for MUNI's F Market & Wharves historic streetcar line and various incentives to use transit will be provided to staff and guests at the hotel.

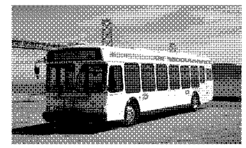
Transportation and Infrastructure

San Francisco International Airport (SFO) continues to improve its economic position and to ramp up passenger services, working towards recovery from the 2001 downturn in air travel. Three new low-fare, coast-to-coast travel operations started service at the Airport during the last fiscal year. In November of 2003, AirTran Airways began daily nonstop service between Atlanta and SFO. In January 2004, ATA became the only carrier in the nation to offer direct nonstop service from SFO to New York's LaGuardia Airport. America West Airlines began the first low-fare nonstop service between SFO and New York's Kennedy Airport in December 2003 and began SFO to Boston Logan service in March 2004. International travel options also expanded as SFO became Air New Zealand's newest American gateway on June 30, 2004. Nonstop service between SFO and Auckland International Airport will operate three days a week in both directions. SFO is Air New Zealand's first new international gateway since 1995 and is the 21st destination on its international network. In June of 2004, Virgin Airlines announced its selection of San Francisco as the operational headquarters of Virgin USA, a domestic low-cost carrier. Virgin USA will hire more than 1,500 employees in its first two years of operations. It will be the only airline with its principal operations based in California.

Bay Area Rapid Transit (BART), the Bay Area's major regional rail service provider, opened four new stations in the summer of 2003 on the San Mateo peninsula south of the City including the long-planned station at SFO. The new BART connection provides direct rail service from downtown San Francisco and the Bay Area to the Airport, with the BART station connected to all terminals through the AirTrain. AirTrain is an automated people mover that takes travelers to the passenger terminals and also to Airport parking and rental car lots on a five-mile circuit. Airport ridership contributed to an increase in BART's total annual passengers for the first time in three years, to over 91 million in fiscal year 2004.

San Francisco's light rail system, the MUNI Metro, serves the downtown underground along the business, civic, shopping and financial centers of the Market Street corridor, and provides above ground service in the neighborhoods west and south of the center. The City is at the mid-point of building a major service expansion, the Third Street Light Rail, to connect the South of Market, Mission Bay, and the southeast sectors of San Francisco to the rest of the Metro system. The project is proceeding on schedule, with the major construction phase slated for completion in summer 2005. Lighting and landscaping have recently been installed along the entire corridor. Following a completion and testing period, passenger service is expected to begin in April or May of 2006, providing new fast, clean, efficient service for areas of the City that are currently underserved by transit.

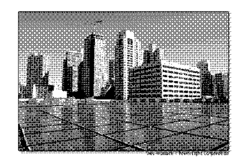
Design work continues for a planned Central Subway that will extend MUNI Metro service from Mission Bay and the Market Street corridor north into Chinatown and North Beach. Community meeting processes are currently underway to help determine the optimal alignment of the subway. During the fiscal year, the Municipal Transportation Agency also completed station enhancements to accommodate future F-line (historic streetcar) service to the ballpark, and new track and refurbished platforms along the Ocean Avenue corridor. Along the California Street cable car line and the Geary Street corridor better signalization was installed which will improve traffic management, transit passenger loading and pedestrian safety for these high-use areas.



The MTA has now completed installation of the NextBus passenger service information system on all rail lines, and the agency is proceeding with installation on all trolley lines. NextBus provides expected bus arrival and wait time information for passengers at street stops and on the internet. Implementation also proceeded during the year for the Translink regional fare system, tying together 21 transit systems in six Bay Area counties with a single smart card for all buses, trains, light rail and ferries. Full, integrated use of Translink is slated for fiscal year 2006. Finally, during fiscal year 2004, the MTA successfully passed a new Transit Impact Development Fee, whereby most non-residential development in San Francisco will pay a per-square foot fee to compensate for additional demand for transit services created by the new construction. The fee will help MUNI maintain service levels in the face of increasing demand.

Construction of the City's newest boulevard, planned to provide service from the Bay Bridge and 101 corridors and the north Mission area across Market Street, proceeded during fiscal year 2004. Demolition of elevated freeway structures damaged in the 1989 Loma Prieta earthquake was completed, and grading and site preparation for what will become the Octavia Boulevard got underway. For this project, Octavia Street will be widened to a four lane two-way roadway separated by a central median, and flanked on either side by a one-way street with on-street parallel parking. Work along the medians, roadway, and sidewalks will include installation of new traffic signals, light fixtures, tree plantings, and benches. An important link in the City's network of bicycle routes was achieved with the completion of a bridge pathway for bike travel westbound on Cesar Chavez Street. Finally, as an additional aid to traffic management in the City, the regional 511 information system, which provides real-time information via phone and web access on road and traffic conditions, was expanded in 2004 to include coverage of the U.S. 101 freeway corridor in San Francisco.

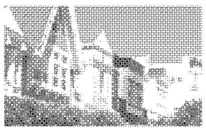
San Francisco's water system, including the Hetch Hetchy reservoir, other reservoirs in the Bay Area and the Sierra and network of pipelines, tunnels and other facilities, deliver water to approximately 2.4 million people in the City and surrounding communities. The City's sewer system provides services to residents and businesses within San Francisco. In November of 2002, San Francisco voters approved two ballot measures which effectively repealed a rate freeze, authorized a $1.6 billion bond issue to be financed through retail rate charges and restructured the agency to give the PUC more control over contracting, employment, and financial management practices. With these improvements, the PUC is moving forward on planning, design and construction for 77 critical projects to improve the water enterprise system both locally and regionally. By the end of fiscal year 2004, construction was underway for four and planning or design processes were in progress for another 42 projects.



Reacting to rolling blackouts and soaring energy prices that have affected California energy markets, San Francisco voters in November 2001 overwhelmingly approved a $100 million revenue bond initiative to fund solar generation, energy efficiency measures and other renewable power sources for public buildings. In October 2003, the Moscone Center Energy Project, at San Francisco's premier conference facility, became the first solar installation to be completed since the solar bond was approved. The $7.5 million project was funded by $5.2 million in local funding and $2.3 million in State funding through Public Utilities Commission and Energy Commission incentives. A 675 kilowatt solar electric system now generates 825,000 kilowatt hours of electricity output each year and, when combined with energy efficiency upgrades, will achieve an annual net reduction of 4.9 million kilowatt hours in electricity demand and $614,643 in annual utility bill savings for the convention facility.

In September of 2003, the City launched Generation Solar, a residential and commercial solar program that will provide at least 100 participants in its first phase with installation and financing for photovoltaic systems and accompanying energy-conservation measures. The program seeks to reduce the cost of solar power through bulk purchasing, low-cost financing, and maximum utilization of state and federal subsidies. The effort also combines solar generation with energy-efficiency, reduced permitting costs, and a City marketing program.

Housing, Health and Safety



In its efforts to combat chronic homelessness, during fiscal year 2003-004 the City began implementation of a voter initiative known as "Care Not Cash," using local dollars allocated for homeless individuals eligible for county General Assistance programs to provide housing instead of cash grants. The centerpiece of this effort is increased development of supportive housing units in single room occupancy hotels and other underutilized buildings mostly located in the City center. These units offer residents greater stability than a shelter or temporary housing setting, and on-site services will include case workers and employment programs. Starting in May 2004, the City was able to open 624 housing units in nine rehabilitated buildings and offer housing to 716 homeless participants. Also during the fiscal year, the City worked on development of a 10-year plan to end chronic homelessness in San Francisco entitled "Changing Direction." The plan's central strategy is a "housing first" model emphasizing immediate placement in permanent housing where residents have access to on-site services necessary to stabilize the individuals and keep them housed. The plan calls for the creation of 3,000 units of new permanent supportive housing and for the phase out of ineffective shelter-based programs.

The City's Affordable Housing and Homeownership Program (a $100 million bond approved in 1996) combined with federal, state and local funds to produce 1,037 units of affordable housing for the cities' homeless, seniors and low and moderate-income families over the last year. The majority of people assisted by the City's affordable housing programs are homeless individuals and families, low-income families with children, seniors and low and moderate-income homeowners. Three rental developments at the Ambassador Hotel, 315 Turk Street and the McAllister Street Co-ops were completed in 2004 for a total of 157 units providing supportive services to tenants. An additional 395 rental units were created for seniors and low-income individuals in five developments: the Kokoro Assisted Living Facility, Padre Apartments, Herald Hotel Apartments, Bayanihan House and Dudley Apartments. The City was also able to leverage its funds to preserve 458 affordable rental units at Golden Gate Apartments, Namiki Apartments, Marlton Manor, Maria Manor and Clayton Hotel. Finally, the City assisted low and-moderate income families by providing ten affordable ownership units and 17 rehabilitation loans to low-and moderate income homeowners.

In July of 2003, the Department of Public Health implemented the McMillan Stabilization Pilot Project, a medically supervised sobering facility providing medical screening, case management services, and linkages to a comprehensive continuum of care to homeless alcohol-dependent persons. The goals of the program are to provide better care for homeless alcohol-dependent persons and improve their health outcomes while decreasing the number of inappropriate ambulance trips and emergency room visits. During the first half of the fiscal year, the Project treated approximately 1,200 individuals and referred 300 individuals for case management. Approximately 43% of McMillan Center clients stay overnight at the facility.

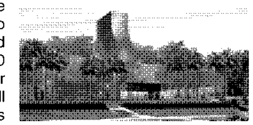
In February 2004, San Francisco announced the creation of a Working Families Tax Credit for low-income San Franciscans. The $6 million pilot program, modeled after the federal Earned Income Tax Credit, will be funded in part with private philanthropic dollars. The first payments will be issued in the summer and fall of 2005. Like the federal program, the Working Families Tax credit is designed to support and encourage work by supplementing the income of low-wage workers, and to stimulate the economy through job incentives.

Cultural and Recreational Facilities

Public arts, educational and recreational institutions in San Francisco have been the recipients in the 1990s and 2000s of both significant voter-approved bond funding and private and community financial support for capital campaigns. As a result, the City has seen several milestones and completions recently, including the opening in the refurbished Civic Center of the new Asian Art Museum in March 2003 and of the restored Conservatory of Flowers in September 2003. Work continues on two bond programs that are benefiting residents and neighborhoods across San Francisco—one for branch libraries and another for

local parks. Finally, construction work is now underway on new buildings for two important institutions both located in Golden Gate Park—the de Young Museum and the Academy of Sciences.

During fiscal year 2003-2004, construction began at two branch library sites—the Excelsior and Mission Bay branch libraries. The ground-breaking in December 2003 for the new Mission Bay Branch Library marks a unique development in this new area of the City that will build both a state of the art library facility and senior housing on the same site. Planning and design was in progress during the year for an additional fourteen branch library renovations and new construction projects. Overall, the City's Branch Library Improvement Program is using funds approved by the voters in a $105.9 million local bond, plus State grants and private funding to renovate, expand and/or acquire 24 neighborhood libraries by 2010.



Golden Gate Park is the site of both the de Young Museum and the Academy of Sciences. With the move of the Asian Art Museum to downtown and the demolition of the older buildings that had housed both it and the de Young, the new de Young will include a 293,000 square foot main building, a sculpture garden, and a copper-clad tower designed by the architects Herzog & de Meuron. The new facility will more than double the gallery space for exhibition of the de Young's collections of American art from the 17th to 20th centuries and art of the native Americas, Africa and the Pacific. Construction of the de Young got underway in fiscal year 2003-2004, with a scheduled opening for the Museum in October 2005. Across the concourse, the City's Academy of Sciences closed in December 2003 and relocated its 18 million-specimen collection to a temporary exhibit and research facility at 10th and Howard Streets downtown. The new Academy, supported by a local bond issue, State funding, and private gifts, will cost approximately $370 million, with a 2008 opening planned. The Academy's aquarium, planetarium and natural history collection will be housed in a new building that incorporates green design principals including a "living roof" of landscaped areas, glass facings and a piazza blending it with the park surroundings.

Status of City Services

In the spring of 2004, the Controller's Office conducted its ninth annual Citizen Survey, measuring, for calendar year 2003, residents' satisfaction with local government and their opinions on the quality of public services over time. The survey results show that:

- A consistent proportion of residents—almost half of survey respondents, choose "fair" in assessing how well local government provides services overall.
- Public safety ratings changed little from the previous year, however San Franciscans reporting feeling safer walking alone in their neighborhoods in 2003 than they did in any year from 1997-2002.
- In most categories, MUNI's ratings are the best of any year since the survey has been conducted. However, the public's ratings of MUNI fares were the lowest since 1997, following on a September 2003 fare increase—the system's first since 1992. Citizen ratings of MUNI's timeliness and reliability have improved slightly, with 42% positive ratings, up from only 15% in 1999.
- San Franciscans are visiting parks and participating in recreational programs at almost the same level as last year. Over half (59%) of respondents report going to a City park at least once a month in the past year.
- Library visits have declined slightly with 26% of respondents visiting a branch library at least once a month in the past year and 15% visiting the main library at least once a month. Seventy-one percent of respondents rate collections favorably and 81% describe the quality of assistance provided by library staff as good or very good.

- About half (52%) of residents rate the pavement condition of the streets in their neighborhood as "good" or "very good," an increase from 45% last year, whereas only 27% feel favorably about the pavement condition of City streets overall, a slight decrease from the previous year. Both neighborhood and citywide ratings of street quality are better than they were in 2002.
- As in previous years, residents of the southeastern part of San Francisco feel the least safe in their neighborhoods, and experience more crime than residents of other areas of the City. They are also less satisfied with the City's parks, MUNI, street conditions, and overall local government performance.

OTHER FINANCIAL INFORMATION

Internal Controls

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Process

The City's budget is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes: (1) the programs, projects, services, and activities to be carried on during the fiscal year; (2) the estimated revenue available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process where policy decisions by the Mayor and Board of Supervisors are made, implemented, and controlled. Note 2(c) to the basic financial statements summarizes the budgetary roles of various City officials and the timetable for their various budgetary actions according to the City Charter.

Pension Trust Fund Operations

The City has a defined benefit retirement plan (Employees' Retirement System) in which a substantial majority of full–time employees participate. The plan's most recent actuarial calculations, as of July 1, 2003, estimate the plan is 109% funded.

Cash Management

The City's pooled deposits and investments are invested pursuant to policy established by the Treasurer working with the City's Treasury Oversight Committee. The City's investment policy seeks the preservation of capital, liquidity and yield, in that order of priority. The policy addresses soundness of financial institutions holding our assets and the types of investments permitted by the California Government Code. The earned yield for the fiscal year 2003-2004 was 1.86%. The Employees' Retirement System and the Redevelopment Agency deposits and investments are maintained outside the City Treasury and follow policies established by their respective governing boards.

Risk Management

With certain exceptions, it is the policy of the City not to purchase commercial insurance against property or liability risks. Instead, the City believes it is more economical to manage its risks internally and set aside

funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations. The City maintains limited coverage for certain facilities, primarily property of the San Francisco International Airport, Port of San Francisco, Municipal Railway, Hetch Hetchy, Water Department, Moscone Convention Center and art at City-owned museums. Additionally, various types of liability insurance coverage are maintained by the City for the Port and the Airport. The City is self-insured for workers' compensation claims. Claims payment history (experience) and payroll costs (exposure) are considered when calculating the claims liabilities and workers' compensation outstanding liabilities for each department. The City's insurance/self–insurance program is reviewed annually in the budget process. The claims liabilities and workers' compensation liabilities reported on the statement of net assets have been actuarially determined and include an estimate of incurred but not reported losses.

INDEPENDENT AUDIT

The City's Charter requires an annual audit of the Controller's records. These records, presented in the Comprehensive Annual Financial Report (CAFR), have been audited by a consortium led by Macias, Gini & Company LLP, and includes Louie and Wong LLP, Haile Girma Company, and the QBIS Group, Inc. The CAFR also incorporates the separately audited financial statements of the City's selected individual funds, enterprise funds and component units. These components were audited as follows: KPMG LLP audited the Airport, Hetch Hetchy, Water Department, Clean Water Program, Municipal Railway, Health Service System and the City's Finance Corporation; Williams, Adley & Company, LLP audited the Employees' Retirement System and the Redevelopment Agency; and Hood & Strong, LLP audited the San Francisco Port.

Macias, Gini & Company LLP Independent Auditor's Report on our current financial statements is presented in the Financial Section of the CAFR. It makes reference to the independent audit reports issued by the auditors noted above.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. This was the twenty-second consecutive year (fiscal years ended June 30, 1982 – 2003) that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

I would like to express my appreciation to the entire staff of the Controller's Office whose professionalism, dedication and efficiency are responsible for the preparation of this report. I would also like to thank Macias, Gini & Company LLP for their invaluable professional support in the preparation of the CAFR. Finally, I want to thank the Mayor and the Board of Supervisors for their interest and support in planning and conducting the City's financial operations.

Respectfully submitted,

Ed Harrington

Ed Harrington
Controller

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City and County of San Francisco, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

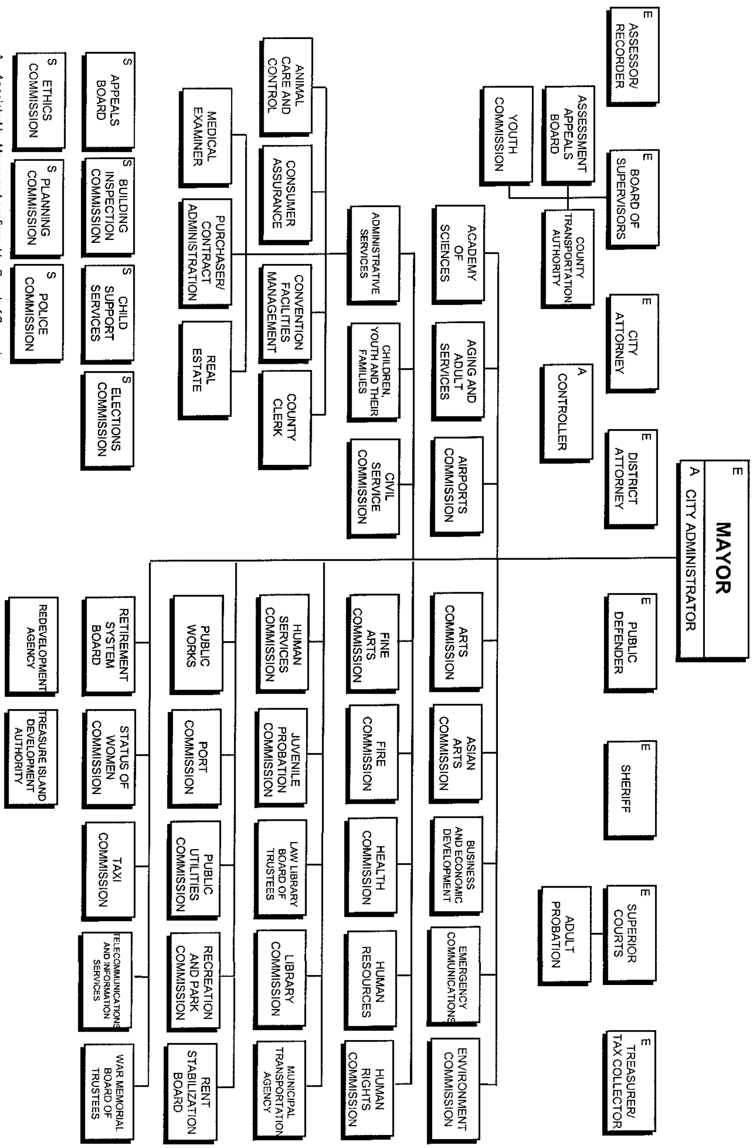
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

San Francisco City and County Government

(As of June 30, 2004)



A Appointed by Mayor and confirmed by Board of Supervisors
E Elected
S Shared - appointed by various elected officials

CITY AND COUNTY OF SAN FRANCISCO

List of Principal Officials
As of June 30, 2004

ELECTED OFFICIALS

Mayor	Gavin Newsom
Board of Supervisors:	
President	Matt Gonzalez
Supervisor	Michela Alioto-Pier
Supervisor	Tom Ammiano
Supervisor	Chris Daly
Supervisor	Bevan Dufty
Supervisor	Tony Hall
Supervisor	Fiona Ma
Supervisor	Sophie Maxwell
Supervisor	Jake McGoldrick
Supervisor	Aaron Peskin
Supervisor	Gerardo Sandoval
Assessor-Recorder	Mabel Teng
City Attorney	Dennis J. Herrera
District Attorney	Kamala Harris
Public Defender	Jeff Adachi
Sheriff	Michael Hennessey
Superior Court	
Presiding Judge	Donna J. Hitchens
Treasurer	Susan Leal

APPOINTED OFFICIALS

City Administrator	William L. Lee
Controller	Edward Harrington

DEPARTMENT DIRECTORS/ADMINISTRATORS

Administrative services	Darryl Burton
Animal Care and Control	Carl Friedman
Consumer Assurance	David Frieders
Convention Facilities Management	John Noguchi
County Clerk	Nancy Alfaro
Medical Examiner	Boyd G. Stephens, M.D.
Purchaser – Office of Contract Administration	Naomi Little
Real Estate	Steve Legnitto
Academy of Sciences	J. Patrick Kociolek, Ph. D.
Adult Probation	Armando Cervantes
Aging and Adult Services	Darrick Lam
Airports Commission	John Martin
Appeals Board	Robert Feldman

CITY AND COUNTY OF SAN FRANCISCO

DEPARTMENT DIRECTORS/ADMINSTRATORS-*(Continued)*

Arts Commission	Richard Newirth
Asian Arts Commission	Emily Sano
Building Inspection Commission	Frank Chiu
Board of Supervisors	Gloria Young
Assessment Appeals Board	Dawn Duran
County Transportation Authority	Jose Luis Moscovich
Youth Commission	Colleen Montoya
Business and Economic Development	Jesse Blout
Child Support Services	Milt Hyams
Children, Youth and Their Families	Winna Davis (Acting)
Civil Service Commission	Kate Favetti
Elections Commission	John Arntz
Emergency Communications	Daniel Sullivan
Ethics Commission	Ginny Vida
Environment Commission	Jared Blumenfeld
Fine Arts Commission	Harry S. Parker III
Fire Commission	Joanne Hayes-White
Health Commission	Mitchell Katz, M.D.
Human Resources	Ted Yamasaki (Acting)
Human Rights Commission	Virginia Harmon
Human Services Commission	Trent Rohrer
Juvenile Probation Commission	Gwendolyn B. Tucker
Law Library Board of Trustees	Marcia Bell
Library Commission	Susan Hildreth
Municipal Transportation Agency	Michael Burns
Municipal Railway	Fred Stephens
Department of Parking and Traffic	Gerald Norman
Planning Commission	Gerald Green
Police Commission	Heather Fong
Port Commission	Monique Moyer
Public Utilities Commission	Patricia Martel
Public Works	Edwin Lee
Recreation and Park Commission	Yomi Agunbiade (Acting)
Rent Stabilization Board	Delene Wolf (Acting)
Retirement System Board	Clare M. Murphy
Status of Women Commission	Belle Taylor-McGhee
Superior Court	Gordon Park-Li
Taxi Commission	Kelly Castagnaro (Acting)
Telecommunications and Information Services	Lewis Loeven
War Memorial Board of Trustees	Elizabeth Murray

DISCRETELY PRESENTED COMPONENT UNITS

Redevelopment Agency	Marcia Rosen
Treasure Island Development Authority	Annemarie Conroy

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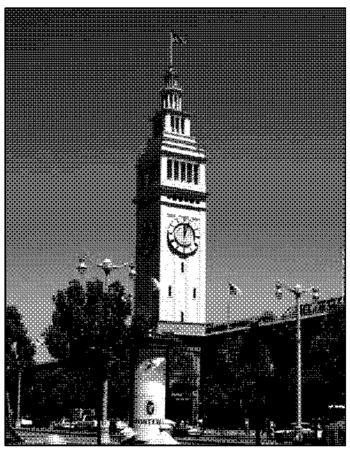
Financial Section

- Independent Auditors' Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Notes to the Financial Statements
- Required Supplementary Information



MACIAS GINI & COMPANY LLP

Mt. Diablo Plaza
2175 N. California Boulevard, Ste. 645
Walnut Creek, California 94596

925.274.0190 PHONE
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The Honorable Mayor Gavin Newsom
The Honorable Members of the Board of Supervisors
City and County of San Francisco

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of San Francisco, California, (the City), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Francisco International Airport, Water Department, Hetch Hetchy Water and Power, San Francisco Municipal Railway, the Parking Garage Corporations, Clean Water Program, Port of San Francisco, City of San Francisco Market Corporation, City and County of San Francisco Finance Corporation, Employees' Retirement System, Health Service System, and the San Francisco Redevelopment Agency, which collectively represent the following percentages of assets, net assets/fund balances and revenues as of and for the year ended June 30, 2004:

Opinion Unit	Assets	Net Assets/ Fund Balances	Revenues
Governmental activities	0.8%	16.6%	-
Business-type activities	97.5%	97.6%	73.4%
Discretely presented component units	99.7%	100.0%	93.0%
Municipal Transportation Agency enterprise fund	96.7%	100.0%	91.5%
Aggregate remaining fund information	90.8%	94.4%	43.2%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors. The prior year partial and summarized comparative information has been derived from the City's 2003 basic financial statements and the report of other auditors dated January 30, 2004, expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial or summarized prior year comparative information. Such prior year information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2003, from which such partial or summarized information was derived.

The management's discussion and analysis and schedules of funding progress listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining fund financial statements and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & Company LLP

Certified Public Accountants

Walnut Creek, California
November 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. Certain amounts presented as 2003 summarized comparative financial information in the basic financial statements have been reclassified to conform with the presentation in the 2004 basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $5.62 billion (net assets). Of this amount, $140 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net assets increased during fiscal year 2004 by $8 million, a significant improvement over the previous year's net asset decrease of $93 million (1.6 percent). This year's increase is due, in part, to improvements in property and other local taxes revenues, expenditure reductions in governmental activities, use of revenues and other resources on capital expenditures and scheduled retirement of certain long-term debt of enterprise activities.

- Total revenues for governmental funds were approximately $2.88 billion for the current fiscal year, an increase of approximately 2.6 percent over the prior fiscal year. Expenditures for governmental funds totaled $2.86 billion, a decrease of approximately 5.2 percent from the same period. Overall, governmental funds revenues exceeded expenditures by approximately $25.9 million, or .9 percent for fiscal year 2004, compared to an expenditure to revenue shortfall of $204 million or 7.3 percent at the end of the prior fiscal year.

- As of June 30, 2004, the City's governmental funds reported combined ending fund balances of $718 million. Approximately 13.4 percent of this total amount, $96 million, is unreserved fund balance available for spending at the government's discretion within the purposes specified for the City's funds. Unreserved fund balance for governmental funds has decreased by approximately 39 percent from the prior year amount of $157 million due to decreases in business taxes, state revenues, investment earnings and the City's related use of fund balances.

- At the end of the fiscal year, unreserved fund balance for the general fund was $63.7 million, 3.3 percent of total general fund expenditures of $1.93 billion. The general fund's unreserved fund balance increased by approximately 42 percent from the prior year amount of $44.7 million. Significant contributing factors were increases in property and local tax revenues, receipt of one-time tobacco settlement funds, and reduced operating expenses due to measures taken by City management to meet revenue shortfalls, particularly from the State.

- The City's total long-term debt including all bonds, loans, and commercial paper decreased by $115.9 million, approximately 1.6 percent, since the end of the last fiscal year. Key factors were scheduled retirement of general obligation and lease revenue bond debt, refunding of current debt, and minimal issuance of new obligations. The City issued $331.3 million in refunding bonds during the year to take advantage of favorable interest rates. A significant majority of this, $265.1 million, was issued by the Airport to refund revenue bonds, $21.9 million was issued by the City to refund General Obligation Bonds, and $44.3 million was also issued by the City to refund Settlement Obligation Bonds related to settlement of business tax litigation in a prior fiscal year. This fiscal year, the City also issued general obligation bonds of $20.9 million for improvements to recreation and park facilities and $29.5 million for improvements to San Francisco Unified School District facilities.

- The City's revenues from local tax sources including property, hotel, and utility taxes in fiscal year 2004 were greater than budget estimates, reflecting the gradual improvement in some sectors of the City's economy. Citywide, charges for services revenue also increased and included increases from Airport concession fees, MUNI passenger fares, and net patient revenues at the San Francisco General Hospital (SFGH), the City's acute care hospital. Investment and interest earnings, however, reported a decline for the third straight year as low interest rates and lower cash balances continued. In addition, state revenue cuts continued this year and City management included those anticipated shortfalls in developing the general fund budget for fiscal year 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains other **supplementary information** in addition to the basic financial statements themselves. These various elements of the Comprehensive Annual Financial Report are related as shown in the graphic below.

Organization of City and County of San Francisco Comprehensive Annual Financial Report

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The following figure summarizes the major features of the financial statements. The overview section below also describes the structure and contents of each of the statements in more detail.

	Government-wide Statements	Fund Financial Statements: Governmental	Proprietary	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the City for basic governmental services	The day-to-day operating activities of the City for business-type enterprises	Instances in which the City administers resources on behalf of others, such as employee benefits
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus; except agency funds do not have measurement focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter	All assets and liabilities, both financial and capital, short-term and long-term	All assets held in a trustee or agency capacity for others
Type of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public protection, public works, transportation and commerce, human welfare and neighborhood development, community health, culture and recreation, general administration and finance, and general city responsibilities. The business-type activities of the City include an airport, port, public transportation systems (including parking), water and power operations, an acute care hospital, a long-term care hospital, sewer operations, and a produce market.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate redevelopment agency, the San Francisco Redevelopment Agency (RDA) and a legally separate development authority, the Treasure Island Development Authority (TIDA), for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government. Included within the governmental activities of the government-wide financial statements are the San Francisco County Transportation Authority and San Francisco Finance Corporation. Included within the business-type activities of the government-wide financial statements is the operation of the San Francisco Parking Authority. Although legally separate from the City, these component units are blended with the primary government because of their governance or financial relationships to the City.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements—i.e. most of the City's basic services are reported in governmental funds. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects and permanent funds). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annually appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers—either outside customers, or internal units or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the San Francisco International Airport (Airport), Port of San Francisco (Port), Water Department (Water), Hetch Hetchy Water and Power (Hetch Hetchy), Municipal Transportation Agency, Laguna Honda Hospital, General Hospital Medical Center, and Clean Water Program (Clean Water), all of which are considered to be major funds of the City.

- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, management information services, printing and mail services and for lease-purchases of equipment by the San Francisco Finance Corporation. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City employees' pension and health plans, the external portion of the Treasurer's Office investment pool, and the agency funds are reported under the fiduciary funds. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Combining Statements and Schedules

The combining statements referred to earlier in connection with non-major governmental funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information on pensions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Since fiscal year 2001, the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments. Two years of financial information in the GASB 34 format are presented.

Net Assets
June 30, 2004 (in thousands)

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Assets:						
Current and other assets	$ 1,445,923	$ 1,535,643	$ 1,823,724	$ 1,975,760	$ 3,269,647	$ 3,511,403
Capital assets	2,314,563	2,208,191	8,483,325	8,421,571	10,797,888	10,629,762
Total assets	3,760,486	3,743,834	10,307,049	10,397,331	14,067,535	14,141,165
Liabilities:						
Long-term liabilities outstanding	1,820,415	1,824,809	5,426,655	5,551,011	7,247,070	7,375,820
Other liabilities	633,330	606,203	567,417	547,507	1,200,747	1,153,710
Total liabilities	2,453,745	2,431,012	5,994,072	6,098,518	8,447,817	8,529,530
Net assets:						
Invested in capital assets, net of related debt	1,096,834	983,834	3,416,154	3,331,481	4,512,988	4,315,315
Restricted	535,054	594,938	432,165	484,377	967,219	1,079,315
Unrestricted	(325,147)	(265,950)	464,658	482,955	139,511	217,005
Total net assets	$ 1,306,741	$ 1,312,822	$ 4,312,977	$ 4,298,813	$ 5,619,718	$ 5,611,635

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $5.62 billion at the close of the fiscal year 2004.

The largest portion of the City's net assets reflects its $4.51 billion (80 percent) investment in capital assets (e.g. land, buildings, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Another portion of the City's net assets, $967 million (17 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance, unrestricted net assets, $140 million (3 percent) may be used to meet the government's ongoing obligations to citizens and creditors. Together, these two categories of net assets totaled 20 percent which reflects a drop from the prior year's total of 23 percent.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities. For the governmental activities, unrestricted net assets have a deficit of $325 million related in part to $140

million in debt from general obligation bonds for the San Francisco Unified School District, which is recorded with no corresponding assets.

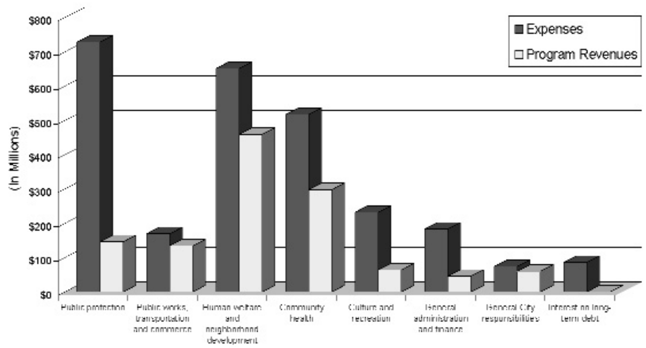
Changes in Net Assets
June 30, 2004 (in thousands)

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues:						
Charges for services	$ 342,952	$ 318,880	$ 1,614,784	$ 1,577,851	$ 1,957,736	$ 1,896,731
Operating grants and contributions	823,784	809,670	169,767	164,257	993,551	973,927
Capital grants and contributions	39,209	46,029	94,818	135,482	134,027	181,511
General revenues:						
Property taxes	723,786	686,858	-	-	723,786	686,858
Business taxes	264,832	276,651	-	-	264,832	276,651
Other local taxes	509,455	450,677	-	-	509,455	450,677
Interest and investment income	11,856	26,332	17,620	50,215	29,476	76,547
Other	170,163	196,496	237,692	188,446	407,855	384,942
Total revenues	2,886,037	2,811,593	2,134,681	2,116,251	5,020,718	4,927,844
Expenses						
Public protection	727,580	778,710	-	-	727,580	778,710
Public works, transportation and commerce	169,179	218,641	-	-	169,179	218,641
Human welfare and neighborhood development	651,250	626,306	-	-	651,250	626,306
Community health	517,066	542,480	-	-	517,066	542,480
Culture and recreation	232,187	242,398	-	-	232,187	242,398
General administration and finance	183,258	186,144	-	-	183,258	186,144
General City responsibilities	73,530	53,026	-	-	73,530	53,026
Unallocated Interest on long-term debt	86,131	77,827	-	-	86,131	77,827
Airport	-	-	618,301	641,036	618,301	641,036
Transportation	-	-	660,650	628,180	660,650	628,180
Port	-	-	61,185	61,074	61,185	61,074
Water	-	-	206,211	186,579	206,211	186,579
Power	-	-	121,629	95,427	121,629	95,427
Hospitals	-	-	562,188	561,673	562,188	561,673
Sewer	-	-	150,586	153,845	150,586	153,845
Market	-	-	949	894	949	894
Total expenses	2,640,181	2,725,532	2,381,699	2,328,708	5,021,880	5,054,240
Increase/(decrease) in net assets before special items and transfers	245,856	86,061	(247,018)	(212,457)	(1,162)	(126,396)
Special items	-	-	9,245	33,000	9,245	33,000
Transfers	(251,937)	(248,260)	251,937	248,260	-	-
Change in net assets	(6,081)	(162,199)	14,164	68,803	8,083	(93,396)
Net assets at beginning of year	1,312,822	1,475,021	4,298,813	4,230,010	5,611,635	5,705,031
Net assets at end of year	$ 1,306,741	$ 1,312,822	$ 4,312,977	$ 4,298,813	$ 5,619,718	$ 5,611,635

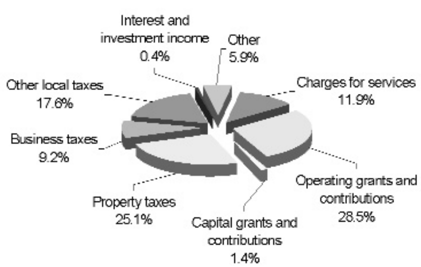
Analysis of Changes in Net Assets

The City's net assets overall increased by $8 million during fiscal year 2004, compared to a $93 million decrease last fiscal year. The governmental activities component of this change was a $6 million decrease, a significantly smaller decrease than in the prior year. Business-type activities' aggregate increase of $14.2 million over last year was less of an increase than in fiscal year 2003, primarily because of one-time expenses. Major reasons for this improvement are noted in the government and business-type activities discussion below.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



Governmental activities. Governmental activities decreased the City's total net assets by $6 million during fiscal year 2004, $156 million less than the decrease in fiscal year 2003. Key factors contributing to this year's change are as follows:

- Overall, governmental activities' revenues increased by approximately $74.4 million while expenses decreased by about $85.4 million and the transfers to business-type activities decreased slightly by a net $3.6 million for a total improvement of $156 million over last year. Within the transfers, the subsidy transfers to MUNI and the City's hospitals declined by $30 million this year.

- Property tax revenue, which was essentially flat in fiscal year 2003, increased by approximately $36.9 million, or 5.4 percent during this fiscal year reflecting, in part, the continued rise in San Francisco's property values over time. Assessed valuation rose

approximately 5.73 percent in fiscal year 2004 and the City continues to improve its ability to issue supplemental tax bills within a shorter time period following the sale of a property. The City also increased its estimated assessment appeals reserve in response to increases in assessment appeals that largely began in fiscal year 2001.

- Revenues from other local taxes, including hotel, parking and sales tax increased by approximately $59 million or 13 percent. This reflects, in part, this year's improvements in hotel occupancy and room rates which had been flat or down in the previous two fiscal years. In addition, fees and service charges increased by approximately $24 million this fiscal year. This amount includes this year's portion of tobacco fine settlement proceeds of $17 million and additional revenues from rental fees and various administrative processing charges.

- Interest and investment income dropped by approximately $14.5 million or 55 percent during the year primarily due to a decrease in the average yield of City pooled investments from 2.77 percent to 1.86 percent. In general, these returns reflect the City's concentration of investments in Treasury Bills and Notes and other short-term investments combined with the continued low interest rates maintained by the Federal Reserve. At fiscal year end, deposits and investments for governmental activities with the City Treasury were approximately $729.7 million, a 2.2 percent increase over the previous year.

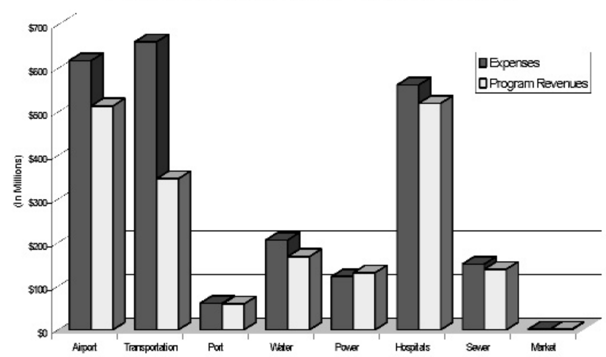
- Operating grants and contributions increased by $14 million, or approximately two percent largely due to increases in federal grants for human welfare and neighborhood development, community health and public protection which included homeland security funds.

As noted above, total governmental activities' actual expenses decreased during fiscal year 2004 by approximately $85.4 million or three percent. Generally, this reflects reductions made during the annual budget process across program areas including Public Protection, Community Health, Public Works, Transportation and Commerce, and Culture and Recreation to respond to projected revenue shortfalls, especially in state funding and business taxes. These reductions incorporated the projected savings from the labor agreements made by many San Francisco public employees' unions to contribute 7.5 percent of salary to fund the cost of pension benefits.

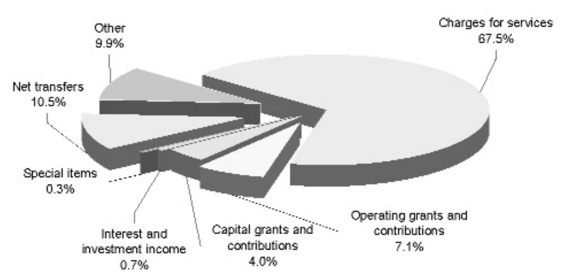
The City's General Fund subsidy transfer to the Municipal Transportation Agency also decreased from $143 million in 2003 to $134 million in 2004, a 6 percent reduction. In addition, the transfers made to the City's two hospitals declined in total by 19 percent, decreasing to $96 million in 2004 from $119 million in 2003. Both hospitals experienced increases in the proportion of patients covered by Medicare, Medi-Cal or other insurers, and/or improvement in reimbursement rates which allowed them to recover a higher share of their costs of service. Although expenses for General City Responsibilities increased by a net $21 million, this included the one time appropriation of $29 million in bond funds to the San Francisco Unified School District. There is a corresponding increase in bond proceeds that offsets this.

The charts on the previous page illustrate the City's governmental expenses and revenues by function, and its revenues by source. As shown, public protection is the largest function in expense (28 percent), followed by human welfare and neighborhood development (25 percent) and community health (20 percent). General revenues such as property, business, and sales taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, operating grants and contributions are the largest single source of funds (28.5 percent), followed by property taxes (25.1 percent), other local taxes (17.6 percent), and charges for services (11.9 percent). These ratios are substantially similar to last year with the exception of other local taxes which increased primarily due to hotel, parking and sales taxes, as noted above.

Expenses and Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



Business-type activities. Business-type activities increased the City's net assets by $14.2 million, bringing the government-wide increase in net assets to $9.2 million. Key factors of this increase are as follows:

- The Municipal Transportation Agency's net assets increased this year by $84 million largely or 5 percent primarily due to use of current year federal and state capital contributions and governmental transfers, mainly from the San Francisco Transportation Authority, to support MUNI's capital program. MUNI's acquired 108 electrical trolley coaches and 2 light rail vehicles

and the completion of capital improvements on the K light rail line and at MUNI's Presidio Feeder Yard. MUNI's operating revenues rose by approximately $18 million or 16 percent during the year due to increased fare revenues resulting from a passenger fare increase during the year. MUNI's non operating revenues, which include federal and state operating grants and parking related revenues increased by $11 million or 5 percent over fiscal year 2003 and its capital contributions from federal, state and local grants increased by $13 million. The City's General Fund subsidy to MTA for this year was $99.6 million for MUNI and $34.4 million for DPT, a total of $13 million less than last year.

- Hetch Hetchy, which operates the City's water storage and power generating facilities in the Sierra Nevada Mountains, increased total net assets by $13.4 million. This was largely due to a $8.6 million increase in non operating revenues which included approximately $6 million in state grants funds for disaster relief reimbursements and energy projects, including the solar energy project at Moscone Convention Center. Hetchy also reported a $26.2 million or 27.5 percent increase in total expenses since the end of fiscal year 2003. Of this, $16.4 million is attributable to an increase in the purchase of power in the spot market due to increased demand.

- The Water Department had an operating loss of $19 million this year and a decrease to net assets of $9.4 million. Water's total net assets was $439 million at year end. Expenses associated with new or expanded water treatment and supply projects increased by about $14 million and the department expensed $4.8 million more in previously capitalized costs than last year. At the same time, income from service charges and other operations remained relatively unchanged. The resulting operating loss was partially offset by a net increase of $9.7 from non-operating activity which included an $18 million gain from a land sale. Additionally, Water also funded a $42.8 million increase to net capital assets through proceeds from the sale of $25 million of commercial paper and other existing resources.

- San Francisco International Airport's net assets decreased by $55 million to $456.6 million, a 10.7 percent decline since the end of fiscal year 2003. The Airport's interest expense increased by $24 million, its depreciation increased by $13 million and its investment income was reduced by $26 million. These first two are related to the Airport's recent capitalization of the new terminal and related projects. On the revenue side, total operating revenues decreased by approximately $14 million, mainly due to a $23 million decline in aviation revenues offset by a $9 million increase in revenues from concessions and parking fees. Airport operating expenses decreased by $46.4 million due to reductions in contractual services and recognition in the prior fiscal year of $37 million in previously capitalized runway expenses. The transfer from the Airport to the City's General Fund was $18.2 million, a slight increase over fiscal year 2003.

As shown in the charts on the previous page, the two largest of San Francisco's business-type activities—the San Francisco International Airport and the Municipal Transportation Agency each had total expenses over $600 million in fiscal year 2004. The City's long-term and acute care hospitals together recorded expenses of over $550 million. Together, these four enterprises make up almost 76 percent of the total business activities. As in prior years, charges for services provide the largest share of revenues, 67.5 percent, for business type activities. The overall proportion of business-type activities' revenues attributable to net transfers decreased in 2004 to 6.2 percent from 7.5 percent in 2003. As noted above, this is due to decreases in the General Fund subsidy to MUNI, DPT and the City's hospitals.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and the Permanent Fund.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $717.6 million, a decrease of $165.8 million over the end of the prior year. The decrease reflects the City's budgetary use of reserves in both general and special revenue funds, liquidation of encumbrances, and reductions in carry-forward funds in fiscal year 2004.

Approximately $96 million of the total ending fund balance in the governmental funds constitutes unreserved fund balance. This is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder is reserved, an indication that it is not available for new spending because it has already been committed. These commitments include: (1) to support a general fund "rainy day" reserve ($55.1 million), (2) to liquidate existing contracts and purchase orders ($185.3 million), (3) to fund continued programs or projects in future fiscal periods ($337.7 million), (3) to pay debt service ($18.8 million), and (4) for a limited number of other purposes ($24.6 million).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the general fund was $63.7 million, while total fund balance was $210.4 million, an increase of $14.1 million over the prior year. This was mainly due to increases in property and local taxes, a one-time use of tobacco tax settlement proceeds along with controls placed by management on general fund expenditures during the fiscal year. Overall, the general fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2004 of $134 million, before transfers and other items are considered.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. For 2004, the unreserved fund balance of $63.7 million represents three percent of total general fund expenditures of $1.93 billion, and the total fund balance represents approximately 11 percent of that amount. For 2003, the general fund's unreserved fund balance of $44.7 million was approximately two percent of the total expenditures of $1.95 billion, and the total fund balance represented approximately ten percent of expenditures.

Proprietary funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of fiscal year 2004, the unrestricted net assets for the San Francisco International Airport were $284.2 million, the Water Department $124.6 million, the Hetch Hetchy Project $87.7 million, the Clean Water Program $50 million, the Port of San Francisco $40.4 million, and the San Francisco Market Corporation $7 million. Three proprietary funds had deficits in unrestricted net assets: the Municipal Transportation Agency had a deficit of $94.8 million, and Laguna Honda Hospital and San Francisco General Hospital had deficits in unrestricted net assets of $19.4 million and $15.1 million respectively. The internal service funds that are used to account for certain governmental activities also had a deficit in unrestricted net assets of $3.9 million.

The total growth in net assets for the enterprise funds was $14.2 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type

activities. As in the previous years, the Airport's $55 million decrease in net assets is related to its major capital assets being depreciated on a straight-line basis over an average of 30 years and to lower operating revenues due to the continued restructuring in the airline industry.

The following table shows actual revenues, expenses and results of operations (excluding capital contributions and expenses) for the current fiscal year in the City's proprietary funds (in thousands):

	Operating Revenues	Operating Expenses	Operating Income (Loss)	Non-Operating Revenues (Expense)	Capital Contributions and Special Items	Interfund Transfers	Change In Net Assets
Airport	$ 486,132	$ 400,596	$ 85,536	$ (149,772)	$ 27,404	$ (18,161)	$ (54,993)
Water	168,260	187,378	(19,118)	9,692	-	-	(9,426)
Hetch Hetchy	124,474	121,629	2,845	11,072	-	(489)	13,428
Municipal Transportation Agency	186,390	655,757	(469,367)	235,425	64,669	253,043	83,770
General Hospital	339,012	412,083	(73,071)	74,918	-	(6,593)	(4,746)
Clean Water	137,806	129,916	7,890	(19,510)	-	(143)	(11,763)
Port	56,702	59,254	(2,552)	(1,550)	11,990	-	7,888
Laguna Honda Hospital	114,595	149,126	(34,531)	(222)	-	24,280	(10,473)
Market Corporation	1,413	948	465	14	-	-	479
Total	$ 1,614,784	$ 2,116,687	$ (501,903)	$ 160,067	$ 104,063	$ 251,937	$ 14,164

Fiduciary Funds

The City maintains fiduciary funds for the assets of the San Francisco Employees' Retirement System and Health Service System, and manages the investment of monies held in trust to benefit public services or employees. As of the end of fiscal year 2004, the net assets of the Retirement System and Health Service System totaled $11.9 billion, representing an increase of $1.38 billion in total net assets since June 30, 2003. This 13% increase is primarily due to the Retirement Trust's investments improved performance this fiscal year, after declines in two of the previous three years. The Investment Trust Fund's net assets totaled $205.1 million, a decrease in net assets of $28.8 million since June 30, 2003 due to withdrawals and distributions to external participants of the fund.

General Fund Budgetary Highlights

The City's final budget differs from the original budget in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved during the fiscal year. In fiscal year 2004, supplemental appropriations were approved for the Fire Department ($3.1 million) and Sheriff's Department ($3.2 million) for overtime personnel costs. The Department of Elections received an additional $3.4 million in appropriations for the special gubernatorial recall election in October 2003. Appropriations were also increased for the Trial Courts ($.5 million) for the indigent defense program, and the final budget for the General City Responsibilities function increased to appropriate approximately $29 million in general obligation bond proceeds for improvements to San Francisco Unified School District facilities.

During the year, actual revenues and other resources were $19.8 million less that budgeted estimates. While the City realized $53.9 million more revenue than budgeted for property, hotel, utility, and real estate transfer taxes, this was partially offset because the City received $36.5 million less than budgeted shortfall in business, sales and parking taxes, interest and investment income, fines and concession revenues. In addition, transfers to the General Fund were approximately $29 million less than estimated, due to a reduction in the funds transferred from the San Francisco General Hospital Fund for the City's participation in the State cost-sharing program among county hospitals. There is no net loss to the General Fund as a result of the hospital transaction since expenses were also reduced.

Differences between the final budget and the actual (budgetary basis) resulted in an $86.8 million decrease in total charges to appropriations. This is primarily due to the following factors:

- A decrease in expenditures by the Department of Public Health of approximately $31.5 million, primarily associated with a reduction in the local match requirement for the State hospital cost-sharing program noted above (SB 855 Medi-Cal disproportionate share program). This decrease is non-program related and does not result in service reductions.

- A decrease in expenditures by the Human Services Department of approximately $16.4 million related to reduced costs under programs such as wage augmentation programs and childcare subsidies. These expense reductions are partly offset by decreases in the Federal and State funds that the City is able to claim under these programs.

- A decrease in expenditures of approximately $2 million in the Adult and Aging Services Department, $1 million in the Recreation and Parks Department and $2 million in the Emergency Communications Department due to reductions in operating and personnel cost.

- The General Fund was able to reduce its transfers to other funds by $17.1 million from budget, primarily through improved revenue performance at the City's Hospitals.

- Budgetary reserves of $9.3 million for various programs and payments that had been anticipated and included in the budget were not used due to management restrictions on spending and were able to be liquidated at the close of the fiscal year.

The net effect of the under-utilization of appropriations, the receipt of some actual revenues greater than estimates, and a $11.9 million increase in budgetary designation for litigation and contingencies resulted in a positive budgetary fund balance variance of $55 million at the end of the fiscal year.

In creating its budget for the fiscal year ending June 30, 2005, the City used an estimated budgetary fund balance of $26.2 million (see Note 4 to the Basic Financial Statements).

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business type activities as of June 30, 2004, amount to $10.8 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, and bridges. The total increase in the City's capital assets for the current fiscal year was four percent (an eight percent increase for governmental activities and a three percent increase for business-type activities) as shown in the table below.

Capital Assets , Net of Accumulated Depreciation
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	$ 143,640	$ 141,608	$ 193,781	$ 194,024	$ 337,421	$ 335,632
Facilities and Improvement	1,695,198	1,656,169	6,149,996	6,171,196	7,845,194	7,827,365
Machinery and equipment	52,674	62,899	912,707	911,497	965,381	974,396
Infrastructure	176,838	131,321	494,671	506,495	671,509	637,816
Property held under lease	536	536	2,248	103	2,784	639
Easements	-	-	89,153	92,053	89,153	92,053
Construction in progress	245,677	215,658	640,769	546,203	886,446	761,861
Total	$ 2,314,563	$ 2,208,191	$ 8,483,325	$ 8,421,571	$ 10,797,888	$ 10,629,762

Major capital asset events during the current fiscal year included the following:

- The Municipal Transportation Agency's net capital assets increased by $85.8 million this fiscal year. This was primarily due to the acquisition 108 electric trolleys and 2 light rail vehicles, completion of Presidio Yard, Utah Shop and K-line rail improvement projects, and ongoing construction work on the Third Street Rail project, a major expansion of the MUNI Metro system in the City's southeast neighborhoods. During this year, MUNI amortized $1.3 million of a $35.5 million deferred gain recorded in April 2002 when the agency entered into a lease transaction involving 118 Breda light rail vehicles. In September 2003 MUNI entered into a second lease transaction involving another 21 Breda vehicles, resulting in a $4.4 million deferred gain. Under these leasing transactions, equity investors hold title to the vehicles to take advantage of tax benefits not available to public entities. MUNI maintains custody and use of the vehicles, and is obligated to insure and maintain them during the term of the lease.

- The Water Department's net capital assets increased by $42.8 million. This included improvements at the Pulgas Temple, Harry Tracy and Sunol Valley Water Treatment Plants totaling approximately $58.7 million, completion of the Sutro Reservoir improvement project for $11.8 million, and completion and capitalization of other smaller projects across the City's water treatment and distribution system.

- Hetch Hetchy Water and Power increased net capital assets by $9.5 million. This included completion of a $14.3 million project on the Priest Reservoir By-pass near Yosemite National Park and completion of the $3.3 million renewable energy generation project at the Southeast Plant.

- The Airport reported an overall decrease in capital assets of $70.4 million or 1.8% for fiscal year 2004 due largely to the net effect of depreciation against completed projects of the Near Term Master Plan for SFO in recent years. This plan includes the new International Terminal (completed in 2001), the Bay Area Rapid Transit (BART) Station at SFO and Air Train people mover (completed in 2003) and new parking facilities, roadways, runway improvements, and other Airport facilities. Capitalizations in fiscal year 2004 included a wastewater treatment plant, and boarding area reconstruction.

- Under governmental activities, net capital assets increased by $106 million. This included completion of Conservatory of Flowers reconstruction, the African Savanna exhibit at the San Francisco Zoo, an upgrade at the City's Asphalt Plant and improvements at a City libraries, parks, and recreation facilities.

At the end of the year, the City's business type activities had approximately $200 million in commitments for various capital projects. Of this, MTA had approximately $77 million, Water Department had $60 million, Hetch Hetchy and Cleanwater had $48 million, and the Airport had $28 million. In addition, there was had approximately $ 66 million reserved for encumbrances in capital project funds for the general government.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

For governmental activities, no net infrastructure assets were recorded in fiscal year 2001 - the first year of presentation in the GASB 34 format, because the historical costs did not meet the threshold established by GASB. Beginning in fiscal year 2002, newly completed projects were capitalized and ongoing infrastructure projects were accounted for in construction in progress.

Additional information about the City's capital assets can be found in Note 7 to the Basic Financial Statements.

Debt Administration

At the end of the current fiscal year, San Francisco had total long-term debt outstanding of $7 billion. Of this amount, $844.7 million is general obligation bonds (including $0.4 million in general obligation bonds issued on behalf of the Port of San Francisco) backed by the full faith and credit of the City and $6.2 billion is revenue bonds, loans, certificates of participation, leases, and other debts of the City secured solely by specified revenue sources.

As noted previously, San Francisco's total long-term debt including all bonds, loans, commercial paper and capital leases decreased by $115.9 million during fiscal year 2004 primarily due to retirement of bonded debt in the enterprise activities.

The City also took advantage of favorable interest rates to reduce debt payments by issuing $331.3 million in refunding bonds. Of this, the Airport issued $265.1 million in refunding revenue bonds; the City issued the remaining $66.2 million to refund general obligation and settlement obligation bonds. The City also issued $20.9 million in general obligation bonds for improvements to the City's recreation and park facilities, and $29.5 million in general obligation bonds for San Francisco Unified School District facilities. Lease-revenue bonds for $9.5 million were issued to finance equipment acquisition through the San Francisco Finance Corporation.

The City's Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is three percent of the taxable assessed value of property in the City - approximately $100 billion in value (net of unreimbursable exemptions) as of the close of the fiscal year. As of June 30, 2004, the City had $844.7 million in authorized, outstanding property tax–supported general obligation bonds, which is equal to approximately 0.81 percent of gross (.88 percent of net) taxable assessed value of property. As of June 30, 2004, there were an additional $872 million in bonds that were authorized but un-issued. If all of these bonds were issued and outstanding in full, the total debt burden would be approximately 1.7 percent of the taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2004 were:

Moody's Investors Service, Inc.	Aa3
Standard and Poor's Ratings Service	AA
Fitch Ratings	AA-

During the fiscal year, Moody's Investors Service and Standard and Poor's affirmed their ratings and negative outlook on San Francisco's outstanding general obligation bonds as noted above. Fitch Ratings downgraded its rating to AA- from AA and changed their rating outlook to stable from negative. Fitch Ratings cited continued weak economic performance; reduced financial reserves and reduced tax revenue mitigated somewhat by the expectation that the City's statutory financial requirements and solid management acumen will restore financial balance. Moody's and Standard & Poor's also noted the continued weak economy in addition to state budget uncertainty and the challenges the City faced in balancing the fiscal 2005 budget. Their concerns were mitigated somewhat by strong management practices as evidenced by revenue monitoring and spending reductions to minimize financial decline.

The City's enterprise activities maintained their underlying debt ratings this fiscal year. The Airport's underlying bond ratings were upheld by Moody's, Standard & Poor's, and Fitch at A1, A, and A, respectively. And, the rating outlook issued by all three remained negative due to the weak economy, war with Iraq and the SARS outbreak that decreased travel between Asia and the United States in spring 2003.

Moody's and Standard & Poor's also affirmed their A2 and A ratings with stable outlooks, respectively, for Clean Water Program's outstanding revenue and refunding bonds.

Since the close of the 2004 fiscal year, the City has issued additional debt of $76.9 million in general obligation bonds for improvements to neighborhood recreation and park facilities, and the California Academy of Sciences. In addition, $39.4 million refunding certificates of participation were issued to refund outstanding certificates for the San Francisco Courthouse Project at 400 McAllister Street.

Additional information in the City's long-term debt can be found in Note 8 to the Basic Financial Statements.

Economic factors and next year's budget and rates

- San Francisco faced a projected General Fund shortfall of over $299 million at the beginning of its fiscal 2005 annual budget process. As a result, significant spending cuts were made across General Fund functions and two new taxes were proposed. In addition, most San Francisco public employees' unions agreed in labor contracts to continue to contribute 7.5 percent of salary to fund the employee cost of pension benefits. The City was able to appropriate $62.8 million in estimated available fund balance and liquidated reserves in the General Fund budget for fiscal year 2005. The use of one-time sources, including the use of fund balance and prior year reserves, meant that the City was able to avoid making even further reductions in public safety, health and human services, and many other critical programs in the budget year.

- As noted in our transmittal letter, San Francisco's unemployment rate has gradually improved over the last two years, dropping to 5.9 percent in June 2004 after a peak of 7.9 percent in July 2002. While the unemployment rate has decreased, this is generally attributed to two factors: 1) that unemployed workers have moved to less expensive areas to live, or 2) that they are no longer included in the California Economic Development Department's count because they are not actively seeking new employment. Employers have been slow to expand their employee ranks given the lagging recovery in our region; however, the reduced unemployment rate is one sign that improvements are emerging.

- During the fiscal 2005 budget cycle, the State negotiated a two-year agreement with local governments to close the State's budgetary shortfall. This entailed shifting various revenue sources including vehicle license fees and sales taxes for property taxes, in part. Voters then reaffirmed the intent of those agreements by passing State Proposition 1A in November 2004. Proposition 1A further protects San Francisco and all other local California governments from the

State balancing their budget by taking additional local revenues. This will have a positive impact on future year revenue stability. In developing the City's fiscal year 2005 budget, policy makers included $32.7 million in revenue reductions to cover State revenue shifts and funding reductions. City management continues to closely monitor all State funding.

- An economic strengthening started in some local taxes, including hotel room, sales, parking and real property transfer taxes. After a near three-plus year downturn, these signs are encouraging news. Weakness is still present in payroll taxes as employers have been reluctant to hire.
- While the above factors were considered in preparing the City's budget for fiscal year 2005, voters rejected the proposed ¼ percent increase to sales tax (Proposition J) and the four-year, 0.1 percent gross receipts tax (Proposition K) in November 2004. The Mayor's Office has already implemented mid-year spending reductions to cover this shortfall, which include the using $15 million of the City's $30 million General Reserve in the fiscal year 2005 budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Below are the contacts for questions about this report or requests for additional financial information.

City and County of San Francisco
Office of the Controller
1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102-4694

Individual Department Financial Statements

San Francisco International Airport
Office of the Airport Deputy Director
Business and Finance Division
PO Box 8097
San Francisco, CA 94128

Port of San Francisco
Fiscal Officer
Pier 1
San Francisco, CA 94111

San Francisco Water Department
Hetch Hetchy Water and Power
San Francisco Clean Water Program
1155 Market Street, 5th Floor
San Francisco, CA 94103

Laguna Honda Hospital
Chief Financial Officer
375 Laguna Honda Blvd.
San Francisco, CA 94116

Municipal Transportation Agency
MUNI Finance and Administration
875 Stevenson Street, Room 260
San Francisco, CA 94103

Health Service System
Department of Human Resources
44 Gough Street
San Francisco, CA 94103

San Francisco General Hospital Medical Center
Chief Financial Officer
2789 – 25th Street
San Francisco, CA 94110

San Francisco Employees' Retirement System
Finance Department
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

Component Unit Financial Statements

San Francisco Redevelopment Agency
Finance Department
770 Golden Gate Avenue, Third Floor
San Francisco, CA 94102

Blended Component Units Financial Statements

San Francisco County Transportation Authority
100 Van Ness Avenue, 25th Floor
San Francisco, CA 94102

San Francisco Finance Corporation
City Hall, Room 336
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

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CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets
June 30, 2004
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
ASSETS					
Current assets:					
Deposits and investments with City Treasury	$ 729,748	$ 674,887	$ 1,404,635	$ -	$ 2,096
Deposits and investments outside City Treasury	100,151	8,295	108,446	179,127	-
Receivables (net of allowance for uncollectible amounts of $40,342 for the primary government):					
Property taxes and penalties	34,595	-	34,595	-	-
Other local taxes	163,017	-	163,017	-	-
Federal and state grants and subventions	161,842	47,026	208,868	-	-
Charges for services	13,731	139,538	153,269	-	618
Interest and other	4,730	45,815	50,545	8,312	3
Loans receivable	-	85	85	21	-
Capital lease receivable from primary government	-	-	-	1,424	
Due from component unit	849	-	849	-	-
Inventories	-	47,864	47,864	-	-
Deferred charges and other assets	9,309	17,615	26,924	-	-
Restricted assets:					
Deposits and investments with City Treasury	-	15,732	15,732	-	-
Deposits and investments outside City Treasury	-	47,121	47,121	199,351	-
Grants and other receivables	-	740	740	937	-
Total current assets	1,217,972	1,044,718	2,262,690	389,172	2,717
Noncurrent assets:					
Loans (net of allowance for uncollectible amounts of $173,367 and $116,168 for the primary government and component units, respectively) receivable	214,650	768	215,418	5,777	-
Capital lease receivable from primary government	-	-	-	192,294	-
Deferred charges and other assets	13,301	69,069	82,370	9,044	-
Restricted assets:					
Deposits and investments with City Treasury	-	407,740	407,740	-	-
Deposits and investments outside City Treasury	-	278,665	278,665	36,670	-
Grants and other receivables	-	22,764	22,764	-	-
Property held for resale	-	-	-	13,986	-
Capital assets:					
Land and other assets not being depreciated	389,317	834,550	1,223,867	114,260	-
Facilities, infrastructure, and equipment, net of depreciation	1,925,246	7,648,775	9,574,021	119,730	-
Total capital assets	2,314,563	8,483,325	10,797,888	233,990	-
Total noncurrent assets	2,542,514	9,262,331	11,804,845	491,761	-
Total assets	$ 3,760,486	$ 10,307,049	$ 14,067,535	$ 880,933	$ 2,717

(Continued)

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets *(Continued)*
June 30, 2004
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
LIABILITIES					
Current liabilities:					
Accounts payable	$ 148,294	$ 128,728	$ 277,022	$ 8,306	$ 703
Accrued payroll	42,611	35,024	77,635	-	19
Accrued vacation and sick leave pay	63,682	40,694	104,376	1,168	-
Accrued workers' compensation	45,138	40,108	85,246	-	-
Estimated claims payable	19,881	15,463	35,344	-	-
Bonds, loans, capital leases, and other payables	146,646	128,851	275,497	53,367	-
Capital lease payable to component unit	1,424	-	1,424	-	-
Accrued interest payable	7,185	11,756	18,941	92,507	-
Unearned grant and subvention revenues	5,286	-	5,286	5,287	-
Due to primary government	-	-	-	849	-
Internal balances	32,419	(32,419)	-	-	-
Deferred credits and other liabilities	120,764	117,002	237,766	1,861	-
Total current liabilities	633,330	485,207	1,118,537	163,345	722
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables	-	17,013	17,013	-	-
Accrued interest payable	-	34,807	34,807	-	-
Other	-	30,390	30,390	-	-
Total liabilities payable from restricted assets	-	82,210	82,210	-	-
Noncurrent liabilities:					
Accrued vacation and sick leave pay	64,735	33,196	97,931	1,565	-
Accrued workers' compensation	168,492	143,388	311,880	-	-
Estimated claims payable	59,924	32,168	92,092	-	-
Bonds, loans, capital leases, and other payables	1,334,970	5,171,501	6,506,471	700,224	-
Capital lease payable to component unit	192,294	-	192,294	-	-
Accrued interest payable	-	-	-	68,013	-
Deferred credits and other liabilities	-	46,402	46,402	-	-
Total noncurrent liabilities	1,820,415	5,426,655	7,247,070	769,802	-
Total liabilities	2,453,745	5,994,072	8,447,817	933,147	722
NET ASSETS					
Invested in capital assets, net of related debt	1,096,834	3,416,154	4,512,988	43,199	-
Restricted for:					
Cash and emergencies requirements by Charter	55,139	-	55,139	-	-
Debt service	9,996	242,537	252,533	139,969	-
Capital projects	48,313	128,387	176,700	-	-
Community development	163,875	-	163,875	-	-
Transportation Authority activities	135,466	-	135,466	-	-
Other purposes	122,265	61,241	183,506	13,986	1,995
Unrestricted (deficit)	(325,147)	464,658	139,511	(249,368)	-
Total net assets (deficit)	$ 1,306,741	$ 4,312,977	$ 5,619,718	$ (52,214)	$ 1,995

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF SAN FRANCISCO

Statement of Activities
Year ended June 30, 2004

(In Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
					Primary Government			Component Units	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
Primary government:									
Governmental activities:									
Public protection	$ 727,580	$ 40,349	$ 105,315	$ -	$ (581,916)	$ -	$ (581,916)	$ -	$ -
Public works, transportation and commerce	169,179	83,176	20,244	30,134	(35,625)	-	(35,625)	-	-
Human welfare and neighborhood development	651,250	23,931	434,980	-	(192,339)	-	(192,339)	-	-
Community health	517,066	38,933	259,164	-	(218,969)	-	(218,969)	-	-
Culture and recreation	232,187	53,369	1,301	9,075	(168,442)	-	(168,442)	-	-
General administration and finance	183,258	43,585	2,116	-	(137,557)	-	(137,557)	-	-
General City responsibilities	73,530	59,609	664	-	(13,257)	-	(13,257)	-	-
Unallocated Interest on long-term debt	86,131	-	-	-	(86,131)	-	(86,131)	-	-
Total governmental activities	2,640,181	342,952	823,784	39,209	(1,434,236)	-	(1,434,236)	-	-
Business-type activities:									
Airport	618,301	486,132	-	27,404	-	(104,765)	(104,765)	-	-
Transportation	660,650	186,390	95,698	64,669	-	(313,893)	(313,893)	-	-
Port	61,185	56,702	-	2,745	-	(1,738)	(1,738)	-	-
Water	206,211	168,260	-	-	-	(37,951)	(37,951)	-	-
Power	121,629	124,474	6,123	-	-	8,968	8,968	-	-
Hospitals	562,188	453,607	66,620	-	-	(41,961)	(41,961)	-	-
Sewer	150,586	137,806	1,326	-	-	(11,454)	(11,454)	-	-
Market	949	1,413	-	-	-	464	464	-	-
Total business-type activities	2,381,699	1,614,784	169,767	94,818	-	(502,330)	(502,330)	-	-
Total primary government	$ 5,021,880	$ 1,957,736	$ 993,551	$ 134,027	(1,434,236)	(502,330)	(1,936,566)	-	-
Component units:									
San Francisco Redevelopment Agency	$ 117,264	$ 22,133	$ 14,271	$ -				(80,860)	-
Treasure Island Development Authority	11,035	8,270	-	-				-	(2,765)
Total component units	$ 128,299	$ 30,403	$ 14,271	$ -				(80,860)	(2,765)
General Revenues:									
Taxes:									
Property taxes					723,786	-	723,786	40,157	-
Business taxes					264,832	-	264,832	-	-
Other local taxes					509,455	-	509,455	5,794	-
Interest and investment income					11,856	17,620	29,476	9,690	-
Other					170,163	237,692	407,855	17,119	-
Special item					-	9,245	9,245	-	-
Transfers - internal activities of primary government					(251,937)	251,937	-	-	-
Total general revenues, special item, and transfers					1,428,155	516,494	1,944,649	72,760	-
Change in net assets					(6,081)	14,164	8,083	(8,100)	(2,765)
Net assets (deficit) - beginning					1,312,822	4,298,813	5,611,635	(44,114)	4,760
Net assets (deficit) - ending					$ 1,306,741	$ 4,312,977	$ 5,619,718	$ (52,214)	$ 1,995

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF SAN FRANCISCO

Balance Sheet
Governmental Funds

June 30, 2004
(with comparative financial information as of June 30, 2003)

(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2004	2003	2004	2003	2004	2003
ASSETS						
Deposits and investments with City Treasury	$ 158,248	$ 137,738	$ 564,795	$ 567,264	$ 723,043	$ 705,002
Deposits and investments outside City Treasury	361	4,149	74,065	126,034	74,426	130,183
Receivables:						
Property taxes and penalties	28,020	25,455	6,575	5,294	34,595	30,749
Other local taxes	150,856	149,138	12,161	11,277	163,017	160,415
Federal and state grants and subventions	63,002	50,119	98,840	169,963	161,842	220,082
Charges for services	7,568	11,356	6,163	6,685	13,731	18,041
Interest and other	2,230	4,469	1,917	3,201	4,147	7,670
Due from other funds	52,917	72,730	5,384	9,665	58,301	82,395
Due from component unit	849	444	-	11,276	849	11,720
Loans receivable (net of allowance for uncollectible amount of $173,367 in 2004; $183,424 in 2003)	1,221	1,043	213,429	197,923	214,650	198,966
Deferred charges and other assets	6,598	6,224	1,625	1,832	8,223	8,056
Total assets	$ 471,870	$ 462,865	$ 984,954	$ 1,110,414	$ 1,456,824	$ 1,573,279
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 83,934	$ 70,157	$ 58,894	$ 61,628	$ 142,828	$ 131,785
Accrued payroll	34,278	70,902	7,068	14,998	41,346	85,900
Deferred tax, grant and subvention revenues	30,151	28,622	31,620	11,743	61,771	40,365
Due to other funds	892	700	88,969	115,105	89,861	115,805
Agency obligations	-	-	138	40	138	40
Deferred credits and other liabilities	112,180	96,172	241,126	219,874	353,306	316,046
Bonds, loans, capital leases, and other payables	-	-	50,000	-	50,000	-
Total liabilities	261,435	266,553	477,815	423,388	739,250	689,941
Fund balances:						
Reserved for cash requirements	-	55,139	-	-	-	55,139
Reserved for rainy day	55,139	-	-	-	55,139	-
Reserved for emergencies	-	4,198	-	-	-	4,198
Reserved for assets not available for appropriation	7,142	6,768	17,443	25,906	24,585	32,674
Reserved for debt service	-	-	18,800	33,866	18,800	33,866
Reserved for encumbrances	42,501	43,195	142,784	278,656	185,285	321,851
Reserved for appropriation carryforward	35,754	26,880	287,690	227,818	323,444	254,698
Reserved for subsequent years' budgets	6,242	15,414	8,005	8,004	14,247	23,418
Unreserved (deficit), reported in:						
General fund	63,657	44,718	-	-	63,657	44,718
Special revenue funds	-	-	19,043	67,988	19,043	67,988
Capital project funds	-	-	10,048	40,561	10,048	40,561
Permanent fund	-	-	3,326	4,227	3,326	4,227
Total fund balances	210,435	196,312	507,139	687,026	717,574	883,338
Total liabilities and fund balances	$ 471,870	$ 462,865	$ 984,954	$ 1,110,414	$ 1,456,824	$ 1,573,279

The notes to the financial statements are an integral part of this statement.

City and County of San Francisco
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2004

(In Thousands)

Fund balances - total governmental funds	$ 717,574
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,311,608
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	8,909
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,796,201)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(6,199)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the funds.	290,556
Internal service funds are used by management to charge the costs of capital lease financing, fleet management, printing and mailing services, and information systems to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	(219,506)
Net assets of governmental activities	$ 1,306,741

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF SAN FRANCISCO
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2004
(with comparative financial information for the year ended June 30, 2003)
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2004	2003	2004	2003	2004	2003
Revenues:						
Property taxes	$ 547,819	$ 516,955	$ 173,618	$ 169,199	$ 721,437	$ 686,154
Business taxes	264,351	276,126	481	525	264,832	276,651
Other local taxes	403,549	345,735	105,906	104,942	509,455	450,677
Licenses, permits and franchises	17,501	16,217	6,287	5,431	23,788	21,648
Fines, forfeitures and penalties	22,158	5,595	3,025	3,405	25,183	9,000
Interest and investment income	3,222	7,798	8,408	17,772	11,630	25,570
Rents and concessions	17,497	17,576	41,482	37,793	58,979	55,369
Intergovernmental:						
Federal	163,047	151,790	181,108	168,464	344,155	320,254
State	497,196	515,382	133,757	174,889	630,953	690,271
Other	-	-	18,259	24,623	18,259	24,623
Charges for services	95,951	93,840	121,696	128,043	217,647	221,883
Other	29,564	11,880	27,580	15,212	57,144	27,092
Total revenues	2,061,855	1,958,894	821,607	850,298	2,883,462	2,809,192
Expenditures:						
Current:						
Public protection	670,729	695,693	36,029	39,118	706,758	734,811
Public works, transportation and commerce	58,711	57,458	106,844	140,307	165,555	197,765
Human welfare and neighborhood development	489,001	492,083	173,947	178,587	662,948	670,670
Community health	413,725	424,302	99,189	100,469	512,914	524,771
Culture and recreation	92,978	96,959	180,185	155,518	273,163	252,477
General administration and finance	128,135	130,786	25,574	32,962	153,709	163,748
General City responsibilities	74,257	52,308	366	1,015	74,623	53,323
Debt service:						
Principal retirement	-	-	78,831	100,902	78,831	100,902
Interest and fiscal charges	-	-	61,886	64,243	61,886	64,243
Bond issuance costs	374	-	976	1,646	1,350	1,646
Capital outlay	-	-	165,872	248,928	165,872	248,928
Total expenditures	1,927,910	1,949,589	929,699	1,063,695	2,857,609	3,013,284
Excess (deficiency) of revenues over expenditures	133,945	9,305	(108,092)	(213,397)	25,853	(204,092)
Other financing sources (uses):						
Transfers in	121,491	105,211	83,169	121,309	204,660	226,520
Transfers out	(277,316)	(303,216)	(179,536)	(189,989)	(456,852)	(493,205)
Issuance of bonds and loans						
Face value of bonds issued	29,480	-	87,165	71,310	116,645	71,310
Face value of loans issued	-	-	2,156	-	2,156	-
Premium on issuance of bonds	358	-	1,053	323	1,411	323
Payment to refunded bond escrow agent	-	-	(65,802)	-	(65,802)	-
Other financing sources-capital leases	6,165	3,686	-	28,899	6,165	32,585
Other	-	935	-	-	-	935
Total other financing sources (uses)	(119,822)	(193,384)	(71,795)	31,852	(191,617)	(161,532)
Net change in fund balances	14,123	(184,079)	(179,887)	(181,545)	(165,764)	(365,624)
Fund balances at beginning of year	196,312	380,391	687,026	868,571	883,338	1,248,962
Fund balances at end of year	$ 210,435	$ 196,312	$ 507,139	$ 687,026	$ 717,574	$ 883,338

The notes to the financial statements are an integral part of this statement.

City and County of San Francisco
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year ended June 30, 2004
(In Thousands)

Net change in fund balances - total governmental funds	$ (165,764)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	106,037
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net assets of the previous year exceeded expenses reported in the statement of activities that do not require the use of current financial resources.	(39,293)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,349
Governmental funds report expenditures pertaining to the establishment of certain deferred credits related to long-term loans made. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding expense is not reported on the statement of activities.	37,657
Lease payments on the Moscone Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serve to reduce the liability in the statement of net assets. This is the amount of property rent payments expended in the governmental funds in the current period.	35,734
Bond issue costs are reported in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceed amortization expense in the current period.	913
The issuance of long-term debt and capital leases provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets. This is the amount by which principal retirement in the current period exceeded bond and other debt proceeds.	25,832
Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net assets. This is the net amount of bond premiums capitalized during the current period.	(1,411)
Interest expense in the statement of activities differs from the amount reported in the governmental funds because of additional accrued and accreted interest; amortization of bond discounts, premiums and refunding losses; and change in the accrual of arbitrage liabilities.	(18,778)
The net revenues of certain activities of internal service funds is reported with governmental activities.	10,643
Changes in net assets of governmental activities	$ (6,081)

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement - General Fund
Year ended June 30, 2004
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary fund balance, July 1	$ 58,483	$ 207,167	$ 207,167	$ -
Resources (inflows):				
Property taxes	527,744	527,767	546,812	19,045
Business taxes	288,619	288,619	264,351	(24,268)
Other local taxes:				
Sales tax	122,510	122,510	120,642	(1,868)
Hotel room tax	90,052	90,052	98,457	8,405
Utility users tax	68,360	68,360	70,938	2,578
Parking tax	32,655	32,655	31,994	(661)
Other local taxes	57,674	57,674	81,518	23,844
Licenses, permits, and franchises:				
Licenses and permits	6,054	6,054	5,408	(646)
Franchise tax	11,020	11,020	12,093	1,073
Fines, forfeitures, and penalties	31,681	31,843	29,731	(2,112)
Interest and investment income	12,511	12,579	7,593	(4,986)
Rents and concessions:				
Garages - Recreation and Park	7,744	7,044	6,978	(66)
Rents and concessions - Recreation and Park	11,949	11,949	10,199	(1,750)
Other rents and concessions	322	323	320	(3)
Intergovernmental:				
Federal subventions:				
Health and social service subventions	154,137	156,847	153,352	(3,495)
Other grants and subventions	2,777	2,989	9,695	6,706
State subventions:				
Social service subventions	101,616	104,374	97,684	(6,690)
Health and welfare realignment	94,324	95,338	95,987	649
Health/mental health subventions	132,558	132,558	137,701	5,143
Public safety sales tax	65,320	65,320	64,158	(1,162)
Motor vehicle in-lieu - county	82,610	82,610	84,627	2,017
Other grants & subventions	23,872	23,961	17,039	(6,922)
Charges for services:				
General government service charges	35,274	35,853	35,276	(577)
Public safety service charges	15,935	16,146	15,066	(1,080)
Recreation charges - Recreation and Park	5,365	5,366	5,446	80
MediCal, MediCare and health service charges	49,990	50,482	39,818	(10,664)
Other financing sources:				
Transfers from other funds	142,728	150,354	121,513	(28,841)
Proceeds from issuance of bonds and loans	1,625	31,207	30,486	(721)
Other resources (inflows)	19,251	19,296	26,464	7,168
Total amounts available for appropriation	$ 2,254,760	$ 2,448,317	$ 2,428,513	$ (19,804)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund *(Continued)*

Year ended June 30, 2004

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to appropriations (outflows):				
Public Protection				
Administrative Services - Animal Care and Control	$ 2,999	$ 3,105	$ 3,105	$ -
Administrative Services - Consumer Assurance	1,405	1,409	1,409	-
Administrative Services - Medical Examiner	4,140	4,162	4,162	-
Adult Probation	8,863	9,023	9,023	-
District Attorney	23,244	24,112	24,073	39
Fire Department	196,077	199,369	198,274	1,095
Juvenile Probation	28,732	29,472	29,447	25
Mayor - Office of the Emergency Services	-	57	57	-
Police Department	245,979	253,826	253,816	10
Public Defender	15,455	15,451	15,262	189
Sheriff	92,449	94,605	94,239	366
Trial Courts	33,887	34,281	34,267	14
Public Works Transportation and Commerce				
Board of Appeals	455	456	418	38
Business and Economic Development	1,366	1,622	1,586	36
Clean Water	196	279	212	67
Department of Public Works	28,841	30,933	30,211	722
Emergency Communications	26,252	25,487	23,550	1,937
Telecommunications and Information Services	1,746	1,690	1,487	203
Human Welfare and Neighborhood Development				
Adult and Aging Services	21,542	22,305	20,274	2,031
Children, Youth and Their Families	10,636	11,148	11,058	90
Commission on the Status of Women	2,415	2,401	2,341	60
Environment	454	2,831	2,713	118
Human Rights Commission	1,572	1,730	1,670	60
Human Services	471,802	467,323	450,944	16,379
Rent Arbitration Board	-	2	2	-
Public Health	444,849	445,236	413,699	31,537
Culture and Recreation				
Academy of Sciences	1,899	1,899	1,856	43
Art Commission	6,122	5,843	5,807	36
Asian Art Museum	6,106	6,027	6,027	-
County Education Office	68	68	68	-
Fine Arts Museum	4,565	4,616	4,616	-
Law Library	513	510	489	21
Administrative Services - Grants for the Arts	14,322	14,073	14,060	13
Recreation and Park Commission	60,563	59,981	58,828	1,153
General Administration and Finance				
Administrative Services	11,929	12,349	12,349	-
Assessor/Recorder	8,988	8,976	8,308	668
Board of Supervisors	9,224	8,743	8,743	-

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund *(Continued)*

Year ended June 30, 2004

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
City Attorney	7,139	8,228	8,228	-
City Planning	11,939	13,649	12,274	1,375
Civil Service	524	543	543	-
Controller	19,828	19,722	19,569	153
Elections	13,444	16,152	15,205	947
Ethics Commission	910	902	867	35
Human Resources	16,271	17,164	17,164	-
Mayor	6,395	7,027	6,891	136
Retirement Services	385	392	392	-
Treasurer/Tax Collector	17,792	18,112	17,476	636
General City Responsibilities				
General City Responsibilities	46,642	83,212	83,200	12
Other financing uses:				
Debt Service	218	194	109	85
Transfers to other funds	285,206	292,664	275,534	17,130
Budgetary reserves and designations	38,412	9,301	-	9,301
Total charges to appropriations	2,254,760	2,292,662	2,205,902	86,760
Available before designations	$ -	$ 155,655	$ 222,611	66,956
Increase to designations				(11,950)
Budgetary fund balance available for appropriation, June 30				$ 55,006

Explanation of differences between budgetary inflows and outflows, and GAAP revenues and expenditures:

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation"	$ 2,428,513
Difference - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(207,167)
Property tax revenue - Teeter Plan	1,007
Unrealized loss on investment	(4,371)
Interest reclassified as transfers from other funds	2,188
Proceeds from issuance of bonds and loans	(30,486)
Operating transfers out greater under GAAP	1,782
Other budget to GAAP differences	(8,098)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(121,513)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 2,061,855
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	$ 2,205,902
Difference - budget to GAAP:	
Capital asset purchases funded under capital leases with Finance Corporation	(6,165)
Other budget to GAAP differences	(1,467)
Operating transfers in greater under GAAP	8,551
Pension reimbursement and others	8,573
Change recognized in budget basis reserves	(11,950)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(275,534)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 1,927,910

CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets - Proprietary Funds
June 30, 2004
(with summarized financial information as of June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds: Major Funds: San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Other Fund: Market Corporation	Total 2004	Total 2003	Governmental Activities-Internal Service Funds 2004	Governmental Activities-Internal Service Funds 2003
ASSETS													
Current Assets:													
Deposits and investments with City Treasury	$ 271,219	$ 168,417	$ 94,853	$ 30,687	$ -	$ 48,934	$ 60,777	$ -	$ -	$ 674,887	$ 656,155	$ 6,705	$ 9,105
Deposits and investments outside City Treasury	10	40	10	6,231	10	-	5	2	1,987	8,295	8,008	25,725	23,155
Receivables (net of allowance for uncollectible amounts of $18,185 and $23,093 in 2004 and 2003, respectively):													
Federal and state grants and subventions	-	-	2,483	42,949	1,414	180	-	-	-	47,026	45,700	-	-
Charges for services	33,034	27,002	7,704	5,519	27,953	19,268	4,618	14,432	8	139,538	149,538	-	-
Interest and other	493	2,439	1,453	62	41,277	91	-	-	-	45,815	62,111	583	461
Loans receivable	-	-	85	-	-	-	-	-	-	85	85	19,046	16,980
Due from other funds	-	2,221	14,305	43,975	-	-	-	-	-	60,501	67,312	-	-
Inventories	100	1,560	263	39,153	4,140	-	1,270	1,378	-	47,864	45,014	-	-
Deferred charges and other assets	1,285	-	-	15,608	-	-	697	-	25	17,615	8,534	149	294
Restricted assets:													
Deposits and investments with City Treasury	15,732	-	-	-	-	-	-	-	-	15,732	-	-	-
Deposits and investments outside City Treasury	47,121	-	-	-	-	-	-	-	-	47,121	-	-	-
Grants and other receivables	740	-	-	-	-	-	-	-	-	740	-	-	-
Total current assets	369,734	201,679	121,156	184,184	74,794	68,473	67,367	15,812	2,020	1,105,219	1,042,457	52,208	49,995
Noncurrent assets:													
Deferred charges and other assets	52,173	4,036	-	4,689	-	2,641	5,530	-	-	69,069	65,441	2,592	2,510
Loans receivable	-	-	768	-	-	-	-	-	-	768	767	227,766	236,263
Restricted assets:													
Deposits and investments with City Treasury	175,417	84,139	-	37,462	-	78,328	4,142	28,252	-	407,740	554,302	-	-
Deposits and investments outside City Treasury	193,226	13,841	-	27,385	8	32,533	10,802	870	-	278,665	354,896	-	-
Grants and other receivables	16,878	150	-	5,548	-	136	-	52	-	22,764	25,209	-	-
Capital assets:													
Land and other assets not being depreciated	128,890	103,684	55,312	309,024	4,097	44,547	131,508	57,488	-	834,550	740,227	-	-
Facilities, Infrastructrure, and equipment, net of depreciation	3,772,015	648,483	204,949	1,579,312	51,839	1,264,615	113,937	8,369	5,256	7,648,775	7,681,344	2,955	2,620
Total capital assets	3,900,905	752,167	260,261	1,888,336	55,936	1,309,162	245,445	65,857	5,256	8,483,325	8,421,571	2,955	2,620
Total noncurrent assets	4,338,599	854,333	261,029	1,963,420	55,944	1,422,800	265,919	95,031	5,256	9,262,331	9,422,186	233,313	241,393
Total assets	4,708,333	1,056,012	382,185	2,147,604	130,738	1,491,273	333,286	110,843	7,276	10,367,550	10,464,643	285,521	291,388

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets - Proprietary Funds *(Continued)*
June 30, 2004
(with summarized financial information as of June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds: Major Funds: San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Other Fund: Market Corporation	Total 2004	Total 2003	Governmental Activities-Internal Service Funds 2004	Governmental Activities-Internal Service Funds 2003
LIABILITIES													
Current liabilities:													
Accounts payable	11,254	8,320	25,316	59,023	15,665	3,266	2,770	2,978	136	128,728	104,540	5,466	4,713
Accrued payroll	4,121	3,466	637	13,556	6,989	1,187	698	4,370	-	35,024	66,791	1,265	2,464
Accrued vacation and sick leave pay	5,802	4,529	967	13,851	7,736	2,019	990	4,800	-	40,694	39,566	1,808	1,833
Accrued workers' compensation	1,186	2,393	455	26,535	4,928	1,006	650	2,955	-	40,108	37,946	263	244
Estimated claims payable	209	1,349	38	11,736	-	1,044	1,087	-	-	15,463	13,786	-	-
Due to other funds	1,052	1,903	528	2,911	15,981	-	598	5,109	-	28,082	33,854	859	48
Deferred credits and other liabilities	48,954	36,381	2,834	4,377	14,668	-	7,419	2,341	28	117,002	110,542	27,205	28,772
Accrued interest payable	-	4,067	-	483	-	7,062	144	-	-	11,756	15,146	986	1,095
Bonds, loans, capital leases, and other payables	65,462	39,055	98	7,299	630	15,413	500	394	-	128,851	95,467	18,910	17,931
Total current liabilities	138,040	101,463	30,873	139,771	66,597	30,997	14,856	22,947	164	545,708	517,638	56,762	57,100
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables	13,093	-	-	-	-	-	3,920	-	-	17,013	15,367	-	-
Accrued interest payable	34,028	-	-	-	-	-	779	-	-	34,807	37,977	-	-
Other	16,472	6,921	-	941	8	653	4,393	1,002	-	30,390	43,837	-	-
Total liabilities payable from restricted assets.	63,593	6,921	-	941	8	653	9,092	1,002	-	82,210	97,181	-	-
Noncurrent liabilities:													
Accrued vacation and sick leave pay	5,774	4,601	831	10,368	5,828	1,737	849	3,208	-	33,196	31,063	1,875	1,754
Accrued workers' compensation	3,969	9,302	1,821	92,905	18,065	3,794	2,463	11,069	-	143,388	131,210	953	835
Estimated claims payable	250	4,762	131	22,108	-	3,717	1,200	-	-	32,168	21,185	-	-
Deferred credits and other liabilities	-	3,666	-	39,687	-	8	2,904	-	137	46,402	44,036	-	-
Bonds, loans, capital leases, and other payables	4,040,096	485,875	595	88,375	1,575	527,315	25,962	1,708	-	5,171,501	5,323,517	228,360	236,828
Total noncurrent liabilities	4,050,089	508,206	3,378	253,443	25,468	536,571	33,378	15,985	137	5,426,655	5,551,011	231,188	239,417
Total liabilities	4,251,722	616,590	34,251	394,155	92,073	568,221	57,326	39,934	301	6,054,573	6,165,830	287,950	296,517
NET ASSETS													
Invested in capital assets, net of related debt	(30,535)	279,085	260,261	1,796,064	53,730	769,386	224,407	63,756	-	3,416,154	3,331,481	1,511	2,620
Restricted:													
Debt service	191,808	14,976	-	2,509	-	33,244	-	-	-	242,537	275,068	-	-
Capital projects	9,721	20,724	-	3,162	-	70,410	-	24,370	-	128,387	147,693	-	-
Other purposes	1,419	-	-	46,484	8	-	11,190	2,140	-	61,241	61,616	-	-
Unrestricted (deficit)	284,198	124,637	87,673	(94,770)	(15,073)	50,012	40,363	(19,357)	6,975	464,658	482,955	(3,940)	(7,749)
Total net assets (deficit)	$ 456,611	$ 439,422	$ 347,934	$ 1,753,449	$ 38,665	$923,052	$275,960	$ 70,909	$ 6,975	$4,312,977	$4,298,813	$ (2,429)	$ (5,129)

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF SAN FRANCISCO
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year ended June 30, 2004
(with summarized financial information for the year ended June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco Interna-tional Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total 2004	Total 2003	Governmental Activities-Internal Service Funds 2004	Governmental Activities-Internal Service Funds 2003
Operating revenues:													
Aviation	$ 325,256	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 325,256	$ 347,998	$ -	$ -
Water and power service	-	156,660	124,243	-	-	-	-	-	-	280,903	289,690	-	-
Passenger fees	-	-	-	114,232	-	-	-	-	-	114,232	97,764	-	-
Net patient service revenue	-	-	-	-	323,815	-	-	114,292	-	438,107	413,405	-	-
Sewer service	-	-	-	-	-	133,160	-	-	-	133,160	130,013	-	-
Rents and concessions	69,329	8,451	231	24,429	3,165	-	45,259	-	-	150,864	132,783	-	8
Parking and transportation	51,742	-	-	33,855	-	-	8,154	-	-	93,751	86,636		-
Charges for services	-	-	-	571	-	-	-	-	-	571	668	97,416	96,334
Other revenues	39,805	3,149	-	13,303	12,032	4,646	3,289	303	1,413	77,940	78,894	-	-
Total operating revenues	486,132	168,260	124,474	186,390	339,012	137,806	56,702	114,595	1,413	1,614,784	1,577,851	97,416	96,342
Operating expenses:													
Personal services	141,249	54,627	20,217	422,836	230,380	37,221	49,707	126,135	174	1,082,546	1,109,455	40,643	42,030
Contractual services	44,789	5,438	4,477	36,650	101,893	5,802	-	4,976	401	204,426	211,283	32,596	33,010
Light, heat and power	20,303	-	59,556	661	-	-	-	-	79	80,599	65,404	-	-
Materials and supplies	6,157	8,124	1,535	27,063	46,663	7,142	-	11,333	2	108,019	97,925	14,958	15,100
Depreciation and amortization	161,112	35,110	9,865	89,999	6,634	38,094	9,547	1,211	282	351,854	313,616	1,218	1,438
General and administrative	991	28,863	15,364	48,656	274	20,294	-	-	7	114,449	81,935	537	889
Services provided by other departments	12,314	31,561	2,749	29,892	26,239	20,572	-	5,320	-	128,647	112,293	3,598	2,832
Other	13,681	23,655	7,866	-	-	791	-	151	3	46,147	89,146	1,294	1,888
Total operating expenses	400,596	187,378	121,629	655,757	412,083	129,916	59,254	149,126	948	2,116,687	2,081,057	94,844	97,187
Operating income (loss)	85,536	(19,118)	2,845	(469,367)	(73,071)	7,890	(2,552)	(34,531)	465	(501,903)	(503,206)	2,572	(845)
Nonoperating revenues (expenses):													
Operating grants:													
Federal	-	-	156	18,714	-	-	-	-	-	18,870	19,462	-	-
State / other	-	-	5,967	76,984	66,620	1,326	-	-	-	150,897	144,795	-	-
Interest and investment income	7,550	6,268	438	1,151	82	1,036	1,080	-	15	17,620	50,215	5,340	4,258
Interest expense	(217,705)	(18,833)	-	(4,893)	(679)	(20,670)	(1,931)	(300)	(1)	(265,012)	(247,651)	(5,467)	(4,333)
Other, net	60,383	22,257	4,511	143,469	8,895	(1,202)	(699)	78	-	237,692	188,446	-	-
Total nonoperating revenues (expenses)	(149,772)	9,692	11,072	235,425	74,918	(19,510)	(1,550)	(222)	14	160,067	155,267	(127)	(75)
Income (loss) before capital contributions, transfers and special items	(64,236)	(9,426)	13,917	(233,942)	1,847	(11,620)	(4,102)	(34,753)	479	(341,836)	(347,939)	2,445	(920)
Capital Contributions	27,404	-	-	64,669	-	-	2,745	-	-	94,818	135,482	-	-
Transfers in	-	-	-	253,389	63,950	-	-	31,853	-	349,192	452,781	255	197
Transfers out	(18,161)	-	(489)	(346)	(70,543)	(143)	-	(7,573)	-	(97,255)	(204,521)	-	-
Net income (loss) before special item	(54,993)	(9,426)	13,428	83,770	(4,746)	(11,763)	(1,357)	(10,473)	479	4,919	35,803	2,700	(723)
Special item	-	-	-	-	-	-	9,245	-	-	9,245	33,000	-	-
Change in net assets	(54,993)	(9,426)	13,428	83,770	(4,746)	(11,763)	7,888	(10,473)	479	14,164	68,803	2,700	(723)
Net assets (deficit) at beginning of year	511,604	448,848	334,506	1,669,679	43,411	934,815	268,072	81,382	6,496	4,298,813	4,230,010	(5,129)	(4,406)
Net assets (deficit) at end of year	$ 456,611	$ 439,422	$ 347,934	$ 1,753,449	$ 38,665	$923,052	$ 275,960	$ 70,909	$ 6,975	$4,312,977	$4,298,813	$ (2,429)	$ (5,129)

The notes to the financial statements are an integral part of this statement.

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CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004
(with summarized financial information for the year ended June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds: Major Funds								Other Fund	Total		Governmental Activities-Internal Service Funds	
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	2004	2003	2004	2003
Cash flows from operating activities:													
Cash received from customers, including cash deposits	$ 513,963	$ 156,826	$ 126,394	$ 204,823	$ 336,630	$ 139,580	$ 8,334	$ 120,845	$ 1,433	$ 1,608,828	$ 1,510,065	$ 113,158	$ 111,900
Cash received from tenants for rent	-	8,451	231	1,948	3,165	-	45,887	-	-	59,682	72,990	-	-
Cash paid to employees for services	(146,136)	(47,694)	(19,062)	(422,549)	(236,377)	(36,462)	(20,582)	(129,094)	(174)	(1,058,130)	(1,037,599)	(41,609)	(41,043)
Cash paid to suppliers for goods and services	(107,431)	(103,508)	(83,558)	(142,148)	(171,239)	(51,157)	(23,095)	(22,028)	(522)	(704,686)	(652,472)	(57,248)	(95,268)
Cash paid for judgements and claims	-	(4,695)	(1,198)	(6,212)	-	(1,229)	-	-	-	(13,334)	(14,557)	-	-
Net cash provided by (used in) operating activities	260,396	9,380	22,807	(364,138)	(67,821)	50,732	10,544	(30,277)	737	(107,640)	(121,573)	14,301	(24,411)
Cash flows from noncapital financing activities:													
Operating grants	163	-	3,672	226,765	68,681	1,181	-	-	-	300,462	251,637	-	-
Transfers in	-	-	-	151,135	63,949	-	-	31,704	-	246,788	321,846	255	197
Transfers out	(18,161)	-	(489)	(1,338)	(70,543)	(143)	-	(7,711)	-	(98,385)	(146,527)	-	-
Transit Impact Development fees received	-	-	-	559	-	-	-	-	-	559	3,199	-	-
Other noncapital increases	-	-	-	1,880	8,895	-	-	-	-	10,775	6,190	-	-
Other noncapital decreases	-	-	-	(2,332)	-	-	-	(772)	-	(3,104)	(171)	-	-
Net cash provided by (used in) noncapital financing activities	(17,998)	-	3,183	376,669	70,982	1,038	-	23,221	-	457,095	436,174	255	197
Cash flows from capital financing activities:													
Capital grants	27,967	18,139	-	81,297	-	-	2,427	-	-	129,830	87,759	-	-
Transfers in	-	-	-	103,246	-	-	-	-	-	103,246	69,269	-	-
Bond sale proceeds and loans received	-	-	-	1,643	-	-	-	-	-	1,643	265,878	9,530	11,070
Proceeds from sale of capital assets	8	-	-	-	-	-	9,025	-	-	9,033	1,874	-	-
Loss from disposition of fixed assets	-	-	-	-	-	-	-	-	-	-	(69)	-	-
Proceeds from commercial paper borrowings	-	25,000	-	-	-	-	-	-	-	25,000	-	-	-
Loans received	-	-	-	-	-	-	-	-	-	-	-	-	2,091
Proceeds from passenger facility charges	56,326	-	-	-	-	-	-	-	-	56,326	53,435	-	-
Acquisition of capital assets	(100,310)	(76,100)	(19,328)	(175,142)	(3,438)	(20,718)	(7,706)	(16,264)	(31)	(419,037)	(537,081)	(188)	(339)
Retirement of capital leases, bonds and loans	(108,090)	(13,345)	-	(6,911)	-	(14,929)	(4,103)	(222)	-	(147,600)	(142,459)	(18,289)	(16,869)
Retirement of commercial paper borrowings	-	-	-	-	-	-	-	-	-	-	(90,000)	-	-
Bond issue costs paid	(717)	(141)	-	(130)	-	-	-	-	-	(988)	(736)	(112)	(264)
Interest paid on long term debt	(205,618)	(24,056)	-	(4,883)	(679)	(23,709)	(1,930)	(13)	-	(260,888)	(267,822)	(5,320)	(6,129)
Other capital financing increases	-	-	-	72,555	-	-	429	-	-	72,984	21,072	-	-
Other capital financing decreases	(12,414)	-	(295)	(68,635)	-	-	(2,307)	-	-	(83,651)	(12,976)	-	-
Net cash provided by (used in) capital financing activities	(342,848)	(70,503)	(19,623)	3,040	(4,117)	(59,356)	(4,165)	(16,499)	(31)	(514,102)	(551,856)	(14,379)	(10,440)
Cash flows from investing activities:													
Purchases of investments with trustees	(1,630,490)	(38,247)	-	(5,794)	-	(20,361)	-	-	102	(1,694,790)	(2,421,897)	-	-
Proceeds from sale of investments with trustees	1,659,792	37,910	-	1,900	-	20,477	-	-	-	1,720,079	2,449,993	-	-
Purchases of restricted deposits and investments	-	-	-	-	-	-	-	-	-	-	(119,357)	-	-
Proceeds from sale of restricted deposits and investments	19,933	-	-	-	-	-	-	-	-	19,933	324,859	-	-
Interest income received	12,051	7,676	658	1,496	82	1,571	1,834	150	14	25,532	50,359	(7)	789
Other investing activities	-	4,301	4,511	(322)	-	(1,202)	-	1,018	-	8,306	12,282	-	(106)
Net cash provided by investing activities	61,286	11,640	5,169	(2,720)	82	485	1,834	1,168	116	79,060	296,239	(7)	683
Net increase (decrease) in cash and cash equivalents	(39,164)	(49,483)	11,536	12,851	(874)	(7,101)	8,213	(22,387)	822	(85,587)	58,984	170	(33,971)
Cash and cash equivalents-beginning of year	500,263	302,079	83,327	61,751	884	134,363	66,718	50,641	1,164	1,201,190	1,142,204	32,260	66,231
Cash and cash equivalents-end of year	$ 461,099	$ 252,596	$ 94,863	$ 74,602	$ 10	$ 127,262	$ 74,931	$ 28,254	$ 1,986	$ 1,115,603	$ 1,201,188	$ 32,430	$ 32,260

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows *(Continued)*
Proprietary Funds

Year ended June 30, 2004
(with summarized financial information for the year ended June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds: Major Funds								Other Fund	Total		Governmental Activities-Internal Service Funds	
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	2004	2003	2004	2003
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss)	$ 85,536	$ (19,118)	$ 2,845	$ (469,173)	$ (73,071)	$ 7,890	$ (2,552)	$ (34,531)	$ 465	$ (501,709)	$ (503,206)	$ 2,572	$ (845)
Adjustments for non-cash activities:													
Depreciation and amortization	164,831	35,110	9,865	89,869	6,634	38,094	9,547	1,211	282	355,443	316,656	1,218	1,438
Provision for uncollectibles	-	-	(1,065)	(11)	31,008	91	(966)	-	-	29,057	73,042	-	-
Write off of capital assets	-	187	-	-	-	-	-	-	-	187	4,076	-	-
Other	-	(4,422)	-	10,932	-	119	(661)	-	-	5,968	(1,407)	-	-
Changes in assets/liabilities:													
Receivables, net	2,040	(1,237)	4,247	(3,050)	(18,547)	1,564	284	4,093	20	(10,586)	(26,340)	15,741	13,937
Due from other funds	-	-	(7,437)	(2,903)	48	-	-	-	-	(10,292)	(5,909)	-	-
Inventories	714	127	(26)	-	472	-	(77)	(464)	-	746	(6,878)	-	-
Deferred charges and other assets	-	-	-	1,014	(3,686)	-	5,056	-	(5)	2,379	3,855	146	(95)
Accounts payable	79	(399)	13,893	2,909	2,790	(805)	(384)	216	(32)	18,267	(7,455)	236	(2,101)
Accrued payroll	(4,703)	(3,042)	(665)	(10,286)	(6,722)	(1,111)	765	(3,862)	-	(29,626)	5,967	(1,199)	149
Accrued vacation and sick leave pay	419	1,313	213	185	725	133	51	325	-	3,364	4,659	96	771
Accrued workers' compensation	(604)	1,874	383	10,387	570	970	182	579	-	14,341	41,395	137	67
Estimated claims payable	-	2,288	26	6,172	(995)	3,787	387	-	-	11,665	(5,135)	-	-
Due to other funds	732	(1,361)	528	2,221	(7,029)	-	(1,402)	2,156	-	(4,155)	(10,459)	-	-
Deferred credits and other liabilities	11,352	(1,940)	-	(2,404)	(18)	-	314	-	7	7,311	(4,434)	(4,646)	(37,732)
Total adjustments	174,860	28,498	19,962	105,035	5,250	42,842	13,096	4,254	272	394,069	381,633	11,729	(23,566)
Net cash provided by (used in) operating activities	$ 260,396	$ 9,380	$ 22,807	$ (364,138)	$ (67,821)	$ 50,732	$ 10,544	$ (30,277)	$ 737	$ (107,640)	$ (121,573)	$ 14,301	$ (24,411)
Reconciliation of cash and cash equivalents to the statement of net assets:													
Deposits and investments with City Treasury:													
Unrestricted	$ 271,219	$ 168,417	$ 94,853	$ 30,687	$ -	$ 48,934	$ 60,777	$ 2	$ -	$ 674,889	$ 656,155	$ 6,705	$ 9,105
Restricted	190,251	84,139	-	37,462	-	78,328	4,142	28,252	-	422,574	554,302	-	-
Unrestricted deposits and investments outside City Treasury	10	40	10	6,233	10	-	5	-	1,986	8,294	8,008	25,725	23,155
Total deposits and investments	461,480	252,596	94,863	74,382	10	127,262	64,924	28,254	1,986	1,105,757	1,218,465	32,430	32,260
Add: Restricted deposits and investments outside City Treasury meeting the definition of cash equivalents	-	-	-	220	-	-	10,060	-	-	10,280	10,828	-	-
Less: Investments not meeting the definition of cash equivalents	(381)	-	-	-	-	-	(53)	-	-	(434)	(28,105)	-	-
Cash and cash equivalents at end of year on statement of cash flows	$ 461,099	$ 252,596	$ 94,863	$ 74,602	$ 10	$ 127,262	$ 74,931	$ 28,254	$ 1,986	$ 1,115,603	$ 1,201,188	$ 32,430	$ 32,260

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF SAN FRANCISCO

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
ASSETS			
Deposits and investments with City Treasury	$ 87,187	$ 206,091	$ 99,307
Deposits and investments outside City Treasury	12,421,630	-	-
Receivables:			
Payroll contribution	8,533	-	25,461
Interest and other	139,216	472	90,284
Invested securities lending collateral	1,356,618	-	-
Deferred charges and other assets	584	-	25,658
Total assets	14,013,768	206,563	$ 240,710
Liabilities			
Accounts payable	17,077	1,446	43,224
Estimated claims payable	14,547	-	-
Agency obligations	-	-	197,486
Obligations under fixed coupon dollar reverse repurchase agreements	199,000	-	-
Payable to brokers	446,432	-	-
Securities lending collateral	1,356,618	-	-
Deferred credits and other liabilities	31,360	-	-
Total liabilities	2,065,034	1,446	$ 240,710
Net Assets			
Held in trust for pension and other employee benefits and external pool participants	$ 11,948,734	$ 205,117	

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF SAN FRANCISCO

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2004

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:		
Employees' contributions	$ 227,659	$ -
Employer contributions	345,381	-
Contributions to pooled investments	-	2,086,500
Total contributions	573,040	2,086,500
Investment income:		
Interest	162,377	1,728
Dividends	95,691	-
Net increase in fair value of investments	1,469,998	-
Securities lending income	15,391	-
Fixed coupon dollar reverse repurchase agreement income	3,083	-
Total investment income	1,746,540	1,728
Less investment expenses:		
Securities lending borrower rebates and expenses	(8,786)	-
Fixed coupon dollar reverse repurchase finance charges and exper	(1,928)	-
Other expenses	(24,700)	-
Total investment expenses	(35,414)	-
Total additions, net	2,284,166	2,088,228
Deductions:		
Benefit payments	887,970	-
Refunds of contributions	7,935	-
Distribution from pooled investments	-	2,117,068
Administrative expenses	10,710	-
Total deductions	906,615	2,117,068
Change in net assets	1,377,551	(28,840)
Net assets at beginning of year	10,571,183	233,957
Net assets at end of year	$ 11,948,734	$ 205,117

The notes to the financial statements are an integral part of this statement.

(1) THE FINANCIAL REPORTING ENTITY

San Francisco is a city and county chartered by the State of California and as such can exercise the powers as both a city and a county under state law. As required by generally accepted accounting principles, the accompanying financial statements present the City and County of San Francisco (the City or Primary Government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operations or financial relationships with the City.

As a government agency, the City is exempt from both federal income taxes and California State franchise taxes.

Blended Component Units

Following is a description of those legally separate component units for which the City is financially accountable that are blended with the Primary Government because of their individual governance or financial relationships to the City.

San Francisco County Transportation Authority (Authority) - The Authority was created in 1989 by the voters of the City to impose a voter-approved sales and use tax of one-half of one percent to fund essential traffic and transportation projects. A Board consisting of the eleven members of the City's Board of Supervisors serving ex officio governs the Authority. The operations of the Authority are reported within other governmental funds. Financial statements for the Authority can be obtained from the Authority's administrative offices at 100 Van Ness Avenue, San Francisco, CA 94102.

San Francisco Finance Corporation (Finance Corporation) - The Finance Corporation was created in 1990 by a vote of the electorate to allow the City to lease-purchase $20 million (plus 5% per year growth) of equipment using tax-exempt obligations. Although legally separate from the City, the Finance Corporation is reported as if it were part of the primary government because its sole purpose is to provide lease financing to the City. The Finance Corporation is reported as an internal service fund. Financial statements for the Finance Corporation can be obtained from the Finance Corporation's administrative offices at City Hall, Room 336, #1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

San Francisco Parking Authority (Parking Authority) – The Parking Authority was created in October 1949 to provide services exclusively to the City. In accordance with Proposition D authorized by the City's electorate in November 1988, a City Charter amendment created the Parking and Traffic Commission (DPT). The DPT consists of five commissioners appointed by the mayor. Upon creation of the DPT, the responsibility to oversee the City's off-street parking operations was transferred from the Parking Authority to the DPT. The staff and fiscal operations of the Parking Authority were also incorporated into the DPT. Beginning on July 1, 2002, the responsibility for overseeing the operations of the DPT became the responsibility of the Municipal Transportation Agency (MTA) pursuant to Proposition E which was passed by the voters in November 1999. Separate financial statements are not prepared for the Parking Authority. Further information about the Parking Authority can be obtained from the Parking Authority's administrative offices at 25 Van Ness Avenue, San Francisco, CA 94102.

Discretely Presented Component Units

San Francisco Redevelopment Agency (Agency) - The Agency is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, govern it. The Agency has adopted as its mission the creation of affordable housing and economic development opportunities Citywide. Included in its financial data are the accounts of the San Francisco Redevelopment Financing Authority (SFRFA), a component unit of the Agency. The SFRFA is a separate joint-powers authority formed between the Agency and the City to facilitate the long-term financing of Agency activities. The Agency's governing commission serves as the Board of Directors of the SFRFA.

In Fiscal Year 2002, the Public Initiatives Development Corporation (PIDC) was formed to develop affordable housing on the Agency's behalf. The Board of PIDC is comprised of management of the Agency and other appointed individuals. Future funding will be dependent on the Agency and as such, PIDC is reported as a blended component unit of the Agency. Activities during the year are predevelopment activities including design and financing of a 106 affordable units mixed-use development.

The Agency's governing body is not substantively the same as that of the City, and the Agency does not provide services entirely or almost entirely to the City. The Agency is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the Agency through the appointment of the Agency's Board and the ability of the City to approve the Agency's budget. Disclosures related to the Agency, where significant, are identified separately throughout these notes. Complete financial statements can be obtained from the Agency's administrative offices at 770 Golden Gate Avenue, San Francisco, CA 94102.

Treasure Island Development Authority (TIDA) – The TIDA is a nonprofit public benefit corporation. The TIDA was authorized in accordance with the Treasure Island Conversion Act of 1997 and designated as a redevelopment agency pursuant to Community Redevelopment Law of the State of California. Seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, govern the TIDA. The specific purpose of the TIDA is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse and conversion of the property known as Naval Station Treasure Island for the public interest, convenience, welfare and common benefit of the inhabitants of the City. The TIDA has adopted as its mission the creation of affordable housing and economic development opportunities on Treasure Island.

The TIDA's governing body is not substantively the same as that of the City and the TIDA does not provide services entirely or almost entirely to the City. The TIDA is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the TIDA through the appointment of the TIDA's Board and the ability of the City to approve the TIDA's budget. Disclosures related to the TIDA, where significant, are separately identified throughout these notes. Separate financial statements are not prepared for TIDA. Further information about TIDA can be obtained from the TIDA administrative offices at 410 Palm Avenue, Building 1, Room 223, Treasure Island, San Francisco, CA 94130.

In accordance with Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the City evaluated potential component units and determined that none of the potential component units were individually significant to the City's reporting entity.

Non Disclosed Organizations

There are other governmental agencies that provide services within the City. These entities have independent governing boards and the City is not financially accountable for them. The City's basic financial statements, except for certain cash held by the City as an agent, do not reflect operations of the San Francisco Airport Improvement Corporation, San Francisco Health Authority, San Francisco Housing Authority, Private Industry Council of San Francisco, San Francisco Unified School District and San Francisco Community College District. The City is represented in two regional agencies, the Bay Area Rapid Transit District (BART) and the Bay Area Air Quality Management District (BAAQM), which are also excluded from the City's reporting entity.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The basic financial statements include certain prior-year summarized comparative information. This information is presented only to facilitate financial analysis.

(b) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are generally collected within 120 days of the end of the current fiscal period. It is the City's policy to submit reimbursement and claim requests for federal and state grant revenues within 30 days of the end of the program cycle and payment is generally received within the first or second quarter of the following fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

Property taxes, other local taxes, grants and subventions, licenses, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental fund:

The ***General Fund*** is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The City reports the following major proprietary (enterprise) funds:

The ***San Francisco International Airport Fund*** accounts for the activities of the City-owned commercial service airport in the San Francisco Bay Area.

The ***Water Department Fund*** accounts for the activities of the San Francisco Water Department. The department is engaged in the distribution of water to the City and certain suburban areas.

The ***Hetch Hetchy Water and Power Fund*** accounts for the activities of Hetch Hetchy Water and Power Department (Hetch Hetchy). The department is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity.

The ***Municipal Transportation Agency Fund*** accounts for the activities of the Municipal Transportation Agency (MTA). The MTA was established by Proposition E, passed by the City's voters in November 1999. The MTA includes the San Francisco Municipal Railway (MUNI), San Francisco Municipal Railway Improvement Corporation (SFMRIC), and beginning on July 1, 2002 the operations of the Parking and Traffic Commission (DPT), which includes the Parking Authority. MUNI was established in 1912 and is responsible for the operations of the City's public transportation system. SFMRIC is a nonprofit corporation established to provide capital financial assistance for the modernization of MUNI by acquiring, constructing, and financing improvements to the City's public transportation system. DPT is responsible for proposing and implementing street and traffic changes and oversees the City's off-street parking operations. DPT is a separate department of the MTA. The parking garages fund later accounted for the activities of various non-profit corporations formed by the Parking Authority to provide financial and other assistance to the City to acquire land, construct facilities, and manage various parking facilities.

The ***General Hospital Medical Center Fund*** accounts for the activities of the San Francisco General Hospital Medical Center, a City-owned acute care hospital.

The ***Clean Water Program Fund*** accounts for the activities of the Clean Water Program (CWP). It was created after the San Francisco voters approved a proposition in 1976, authorizing the City to issue $240 million in bonds for the purpose of acquiring, construction, improving, and financing improvements to the City municipal sewage treatment and disposal system.

The ***Port of San Francisco Fund*** accounts for the activities of the Port of San Francisco. This was established in 1969 after the San Francisco voters approved a proposition to accept the transfer of the Harbor of San Francisco from the State of California.

The ***Laguna Honda Hospital Fund*** accounts for the activities of Laguna Honda Hospital, the City-owned skilled nursing facility which specializes in serving elderly and disabled residents.

Additionally, the City reports the following fund types:

The ***Permanent Fund*** accounts for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific programs.

The ***Internal Service Funds*** account for the financing of goods or services provided by one City department to another City department on a cost-reimbursement basis. Internal Service Funds account for the activities of the equipment maintenance services, centralized printing and mailing services, centralized telecommunications and information services, and lease financing through the Finance Corporation.

The ***Pension and Other Employee Benefit Trust Funds*** reflect the activities of the Employees' Retirement System and the Health Service System. The Retirement System accounts for employee contributions, City contributions, and the earnings and profits from investments. It also accounts for the disbursements made for employee retirement benefits, withdrawals, disability and death benefits as well as administrative expenses. The Health Service System accounts for contributions from active and retired employees and surviving spouses, City contributions, and the earnings and profits from investments. It also accounts for the disbursements to various health plans and health care providers for the medical expenses of beneficiaries.

The ***Investment Trust Fund*** accounts for the external portion of the Treasurer's Office investment pool. The funds of the San Francisco Community College District, San Francisco Unified School District, and the Trial Courts are accounted for within the Investment Trust Fund.

The ***Agency Funds*** account for the resources held by the City in a custodial capacity on behalf of other agencies.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges to other City Departments from the Water Department and Hetch Hetchy. These charges have not been eliminated because elimination would distort the direct costs and program revenues reported in the Statement of Activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: water, sewer and power charges, public transportation fees, airline fees and charges, parking fees, hospital patient service fees, commercial and industrial rents, printing services, vehicle maintenance fees, and telecommunication and information system support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) Budgetary Data

The City adopts annual budgets for all governmental funds on a substantially modified accrual basis of accounting except for capital project funds and certain debt service funds which substantially adopt project length budgets.

The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are deliberated, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

The Administrative Code Chapter 3 outlines the City's general budgetary procedures, with Section 3.3 detailing the budget timeline. A summary of the key budgetary steps are summarized as follows:

Original Budget

(1) Departments and Commissions conduct hearings to obtain public comment on their proposed annual budgets beginning in December and submit their budget proposals to the Controller's Office no later than February 21.

(2) The Controller's Office consolidates the budget estimates and transmits them to the Mayor's Office no later than the first working day of March. Staff of the Mayor's Office analyze, review and refine the budget estimates before transmitting the Mayor's Proposed Budget to the Board of Supervisors.

(3) By the first working day of May, the Mayor submits the Proposed Budget for selected departments to the Board of Supervisors. The selected departments are determined by the Controller in consultation with the Board President and the Mayor's Budget Director. Criteria for selecting the departments include (1) that they are not supported by the City's General Fund or (2) that they do not rely on the State's budget submission in May for their revenue sources.

(4) By the first working day of June, the Mayor submits the complete Proposed Budget to the Board of Supervisors along with a draft of the Annual Appropriation Ordinance prepared by the Controller's Office.

(5) Within five working days of the Mayor's proposed budget transmission to the Board of Supervisors, the Controller reviews the estimated revenues and assumptions in the Mayor's Proposed Budget and provides an opinion as to their accuracy and reasonableness. The Controller also may make a recommendation regarding prudent reserves given the Mayor's proposed resources and expenditures.

(6) The designated Committee (usually the Budget Committee) of the Board of Supervisors conducts hearings, hears public comment, and reviews the Mayor's Proposed Budget. The Committee recommends an interim budget reflecting the Mayor's budget transmittal and, by June 30, the Board of Supervisors passes an interim appropriation and salary ordinances.

(7) Not later than the last working day of July, the Board of Supervisors adopts the budget through passage of the Annual Appropriation Ordinance, the legal authority for enactment of the budget.

Final Budget

The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:

(1) Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year. In certain circumstances, other programs and regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

(2) Appropriations may be adjusted during the year with the approval of the Mayor and the Board of Supervisors, e.g. supplemental appropriations. Additionally, the Controller is authorized to make certain transfers of surplus appropriations within a department. Such adjustments are reflected in the final budgetary data.

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Controller is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

Budgetary data, as revised, is presented in the basic financial statements for the General Fund. Final budgetary data excludes the amount reserved for encumbrances for appropriate comparison to actual expenditures.

Generally, new or one-time federal and state grants, other capital projects, and debt issues are budgeted by the Mayor and the Board of Supervisors through a supplemental appropriation.

(d) Deposits and Investments

Investment in the Treasurer's Pool

The Treasurer invests on behalf of most funds of the City and external participants in accordance with the City's investment policy and the California State Government Code. The City Treasurer who reports on a monthly basis to the Board of Supervisors manages the Treasurer's pool. In addition, the function of the County Treasury Oversight Committee is to review and monitor the City's investment policy and to monitor compliance with the investment policy and reporting provisions of the law through an annual audit.

The Treasurer's investment pool consists of two components: 1) pooled deposits and investments and 2) dedicated investment funds. The dedicated investment funds represent restricted funds and relate to bond issuance of the Enterprise Funds and the General Fund's cash reserve requirement. In addition to the Treasurer's investment pool, the City has other funds that are held by trustees. These funds are related to the issuance of bonds and certain loan programs of the City. The investments of the Employees' Retirement System and deposits and investments of the Redevelopment Agency are held by trustees (note 5).

The San Francisco Unified School District, San Francisco Community College District, and the Trial Courts of the State of California are voluntary participants in the City's investment pool. As of June 30, 2004, $205 million was held on behalf of these voluntary participants. The total percentage share of the Treasurer's pool that relates to these three external participants is 9.23%. The deposits held for these entities are included in the Investment Trust Fund. The City has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2004 to support the value of shares in the pool.

For reports on the external investment pool, contact the Office of the Treasurer, Room 140, City Hall, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

Investment Valuation

Treasurer's Pool – Substantially all investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of participants' position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal. In the event that a certain fund overdraws its share of pooled cash, the overdraft is reported as a due to the General Fund. Certain U.S. government securities that have a remaining maturity at time of purchase of one year or less are carried at amortized cost, which approximates market value.

Employees' Retirement System (Retirement System) - Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market price are reported at estimated fair value. Purchases and sales of investments are recorded on a trade date basis. The fair values of real estate holdings are estimated primarily on appraisals prepared by third-party appraisers. The fair values of venture capital investments are estimated based primarily on audited financial statements provided by the individual fund managers. Such market value estimates involve subjective judgments, and the actual market price of these investments can only be determined by negotiation between independent third parties in a sales transaction.

Investments in forward currency contract investments are commitments to purchase or sell stated amounts of foreign currency. Changes in market value of open contracts are immediately recognized as gains or losses. The market values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2004, the fair value of open purchase contracts was $839.2 million, offset by the fair value of open sales contracts of ($842.7) million for a net fair value of ($3.5) million. The Retirement System utilized contracts netting to $320.6 million to hedge (or decrease) the currency risk of foreign investments or to settle trades, and contracts netting to $317.1 million to increase investment exposure in foreign currencies beyond the amounts reported as international investment securities or to settle trades. Additionally, contracts may be used to effectively cancel previous contracts.

The City Charter and Retirement System Board (Board) policies permit the Retirement System to use investments of the Retirement System's Pension Plan (the Plan) to enter into securities lending transactions. These are loans of securities to broker-dealers and other entities for collateral, with a simultaneous agreement to return collateral for the same securities in the future. The Retirement System's securities custodians are agents in lending the Plan's securities for cash collateral of 102% for domestic securities and 105% for international securities. Securities on loan at year-end are presented as "non-categorized" in the schedule of custodial risk (note 5). As of June 30, 2004, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers exceed the amounts the borrowers owe the Retirement System. Contracts with the lending agents require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or if the borrowers fail to pay the Retirement System for income distributions by the securities issuers while the securities are on loan. Non cash collateral cannot be pledged or sold unless the borrower defaults.

Either the Retirement System or the borrower can terminate all securities loans on demand, although the average term of the loans is fifty-three days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which at year-end had a weighted-average maturity of thirty-nine days. In lending international securities, cash collateral is invested in a separate short-term investment pool, which at year-end had a weighted-average maturity of eighteen days. The relationship between the maturities of the investment pools and the Retirement System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Retirement System cannot determine. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan. Cash received as collateral on securities lending transactions is reported as an asset, and liabilities from these transactions are reported in the statement of net assets. Additionally, the costs of securities lending transactions, such as borrower rebates and fees, are recorded as expenses.

The City Charter and Board policies permit the Retirement System to use investments to enter into fixed coupon dollar repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase similar securities in the future at a lower price that reflects a financing rate. The fair value of the securities underlying fixed coupon dollar repurchase agreements equals the cash received. If the dealers default on their obligations to resell these securities to the Retirement System at the agreed buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased in the open market at a price higher than the agreed-upon buy back price. This credit exposure at June 30, 2004 was approximately $2.3 million.

Other funds – Non-pooled investments are also generally carried at fair value. However, money market investments (such as short term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations), and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity at the time of purchase of one year or less are carried at amortized cost, which approximates market value. The fair value of non-pooled investments is determined annually and is based on current market prices. The fair value of investments in open-end mutual funds is determined based on the fund's current share price.

Component Unit - San Francisco Redevelopment Agency - Investments are stated at fair value except for money market investments with maturities of one year or less which have been stated at amortized cost. The fair value of investments has been obtained by using market quotes as of June 30, 2004.

Investment Income

Income from pooled investments is allocated at month end to the individual funds or external participants based on the fund or participant's average daily cash balance in relation to total pooled investments. City management has determined that the investment income related to certain funds should be allocated to the General Fund. On a budget basis, the interest income is recorded in the General Fund. On a generally accepted accounting principles (GAAP) basis, the income is reported in the fund where the related investments reside. A transfer is then recorded to transfer an amount equal to the interest earnings to the General Fund. This is the case for certain other governmental funds, Internal Service Funds, and Trust and Agency Funds.

It is the City's policy to charge interest at month end to those funds that have a negative average daily cash balance. In certain instances, City management has determined that the interest expense related to the fund should be allocated to the General Fund. On a budget basis, the interest expense is recorded in the General Fund. On a GAAP basis, the interest expense is recorded in the fund and then a transfer from the General Fund for an amount equal to the interest expense is made to the fund. This is the case for certain other governmental funds, MTA, Laguna Honda Hospital, General Hospital Medical Center, and the Internal Service Funds.

Income from non-pooled investments is recorded based on the specific investments held by the fund. The interest income is recorded in the fund that earned the interest.

(e) Loans Receivable

For the purposes of the fund financial statements, the governmental funds expenditures relating to long-term loans arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred credit account.

The Mayor's Office of Housing administers several housing programs and issues loans to qualified applicants. Many of these loans may be forgiven if certain terms and conditions of the loans are met. They are accounted for in the other governmental funds as long-term loans receivable with an allowance for forgivable loans, and an offsetting deferred credit account.

For purposes of the government-wide financial statements, long-term loans are not offset by deferred credit accounts.

(f) Inventory

Inventory recorded in the proprietary funds primarily consists of construction materials and maintenance supplies, as well as pharmaceutical supplies maintained by the hospitals. Generally, proprietary funds value inventory at cost or average cost and expense supply inventory as it is consumed. This is referred to as the consumption method of inventory accounting. An exception is the CWP which accounts for materials and supplies using the purchase method. This method records items as expenses when they are acquired. The governmental fund types also use the purchase method to account for supply inventories, which are not material.

(g) Redevelopment Agency Property Held for Resale

Property held for resale is recorded as an asset at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of a property based on current intended use.

(h) Capital Assets

Capital assets, which include land, facilities and improvements, machinery and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Amortization of assets acquired under capital leases is included in depreciation and amortization. Facilities and improvements, infrastructure, machinery and equipment, and easements of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Facilities and Improvements	15 to 175
Infrastructure	15 to 70
Machinery and Equipment	2 to 75
Easements	20

Works of art, historical treasures and zoological animals held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are not capitalized. These items are protected, kept unencumbered, cared for and preserved by the City. It is the City's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

(i) Accrued Vacation and Sick Leave Pay

Vacation pay, which may be accumulated up to ten weeks depending on an employee's length of service, is payable upon termination.

Sick leave may be accumulated up to six months, except for Local 21 members, who are all entitled to accumulate all unused sick leave. Unused amounts accumulated prior to December 6, 1978 are vested and payable upon termination of employment by retirement or disability caused by industrial accident or death. Effective July 1, 2002, the City established a pilot "wellness incentive program" (the Program) to promote workforce attendance. The Program was initially negotiated as part of the July 1, 2001 to June 30, 2004 labor contract between the City and forty-one labor organizations, representing about 48% of the City's workforce. It is described in several Memorandums of Understanding (MOUs) dated since July 1, 2001, between the City and the affected labor organizations. Under the terms of this MOUs and the labor contracts, the Program is in effect from July 1, 2002 to at least June 30, 2005.
This Program provides:

> Effective July 1, 2002, any full-time employee leaving the employment of the City upon service or disability retirement may receive payment for a portion of sick leave earned but unused at the time of separation. The amount of this payment shall be equal to 2.5% of sick leave balances earned but unused at the time of separation times the number of whole years of continuous employment times an employee's salary rate, exclusive of premiums of supplements, at the time of separation. Vested sick leave hours as described by Civil Service Commission rules, shall not be included in this computation.

The City accrues for all salary-related items, including the Program, in the government-wide and proprietary fund financial statements for which they are liable to make a payment directly and incrementally associated with payments made for compensated absences on termination. The City includes its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay.

(j) Bond Issuance Costs, Premiums, Discounts and Interest Accretion

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

Interest accreted on capital appreciation bonds is reported as accrued interest payable in the government-wide and proprietary fund financial statements.

(k) Fund Equity

Reservations of Fund Equity

Reservations of fund balances of the governmental funds indicate that portion of fund equity which is not available for appropriation for expenditure or is legally segregated for a specific future use. Following is a brief description of the nature of certain reserves.

Reserves for cash requirements and emergencies - The City's Charter was amended in November 2003 and replaced the requirements for a cash requirement reserve and an emergency reserve with the rainy day reserve.

Reserve for rainy day - The City's Charter requires that the City set aside funds into a reserve account in years in which revenue growth exceeds five percent compared to the year before. The City will be able to spend those funds in years in which revenues decline or grow by less than two percent.

Reserve for assets not available for appropriation - Certain assets, primarily cash and investments outside City Treasury and deferred charges, do not represent expendable available financial resources. Therefore, a portion of fund equity is reserved to offset the balance of these assets.

Reserve for debt service - The fund balance of the debt service funds is reserved for the payment of debt service in the subsequent year.

Reserves for encumbrances - Encumbrances are recorded as reservations of fund balances because they do not constitute expenditures or liabilities. In certain other governmental funds, this accounting treatment results in a deficit unreserved fund balance. This deficiency is carried forward to the next fiscal year where it is applied against estimated revenues in the year the commitments are expended.

Reserve for appropriation carryforward – At the end of the fiscal year, certain budgeted expenditures are authorized to be carried over and expended in the ensuing year. A reserve of fund balance is established in the amount of these budget authorizations.

Reserve for subsequent years' budgets – A portion of fund balance is reserved for subsequent years' budgets. This balance includes the reserve required by the City's Administrative Code for the budget incentive program for the purpose of making additional funds available for items and services that will improve the efficient operations of departments.

Restricted Net Assets

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- *Restricted Net Assets* – This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Assets* – This category represents net assets of the City, not restricted for any project or other purpose.

Designations of Fund Equity

Designations of fund balances (note 4) indicate that portion of fund balance that is not available for appropriation based on management's plans for future use of the funds. Following is a brief description of the nature of the designation as of June 30, 2004.

Designation for litigation and contingencies – This designation represents management's estimate of anticipated legal settlements or contingencies to be paid in the subsequent fiscal year.

Deficit Net Assets/Fund Balances

The Telecommunications and Information Internal Service Fund had a $2.1 million deficit total net assets as of June 30, 2004. Approximately $0.05 million of this deficit is due to depreciation that is not funded and will result in continuing deficits. The remaining portion of the deficit of total net assets relates to operations and is expected to be reduced in future years through anticipated rate increases or reductions in operating expenses.

The Central Shops Internal Service Fund had a $0.8 million deficit as of June 30, 2004. The deficit is due to depreciation and certain non-current accrued expenses that are not funded and will result in continuing deficits in future years.

The Culture and Recreation Fund had a $8.3 million deficit as of June 30, 2004. It is due to incurring costs for grant programs before receiving grant resources. It will be eliminated once the resources become available.

The Moscone Convention Center Fund had a $3.8 million deficit as of June 30, 2004. The deficit will be covered as budgeted hotel tax revenues are realized.

(l) Interfund Transfers

Interfund transfers are generally recorded as transfers in (out) except for certain types of transactions that are described below.

(1) Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund and a liability of the requesting fund at the end of the fiscal year.

(2) Reimbursements for expenditures, initially made by one fund which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed.

(m) Refunding of Debt

Gains or losses occurring from advance refundings, completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities, they are deferred and amortized into expense if they occurred subsequent to June 30, 2000.

(n) Cash Flows

Statements of cash flows are presented for proprietary fund types. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. Pooled cash and investments in the City's Treasury represent monies in a cash management pool and such accounts are similar in nature to demand deposits.

(o) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(p) Reclassifications

Certain amounts presented as 2003 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform with the presentation in the 2004 basic financial statements.

(q) Effects of New Pronouncements

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.* This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risk identified in this statement also should be disclosed. The City will implement the new reporting requirements in the fiscal year 2004-05 financial statements.

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the City's fiscal year ending June 30, 2006.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer

OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the City's fiscal year ending June 30, 2007.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1.* This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the City's fiscal year ending June 30, 2006.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2008.

(r) Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheets because the use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to pay debt service, unspent bond proceeds, and amounts restricted for future capital projects. In addition, certain grant proceeds are restricted by the granting agency.

(3) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(a) Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

Total fund balances of the City's governmental funds, $717,574, differs from net assets of governmental activities, $1,306,741, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental fund balance sheets.

Balance Sheet/Statement of Net Assets (in thousands)

	Total Governmental Funds	Long-term Assets, Liabilities(1)	Internal Service Funds(2)	Reclassi-fications and Eliminations	Statement of Net Assets Totals
Assets					
Deposits and investments with City Treasury	$ 723,043	$ -	$ 6,705	$ -	$ 729,748
Deposits and investments outside City Treasury	74,426	-	25,725	-	100,151
Receivables, net:					
Property taxes and penalties	34,595	-	-	-	34,595
Other local taxes	163,017	-	-	-	163,017
Federal and state grants and subventions	161,842	-	-	-	161,842
Charges for services	13,731	-	-	-	13,731
Interest and other	4,147	-	583	-	4,730
Due from other funds	58,301	-	-	(58,301)	-
Due from component unit	849	-	-	-	849
Loans receivable, net	214,650	-	-	-	214,650
Capital assets, net	-	2,311,608	2,955	-	2,314,563
Deferred charges and other assets	8,223	8,909	5,478	-	22,610
Total assets	1,456,824	2,320,517	41,446	(58,301)	3,760,486
Liabilities					
Accounts payable	142,828	-	5,466	-	148,294
Accrued payroll	41,346	-	1,265	-	42,611
Accrued vacation and sick leave pay	-	124,734	3,683	-	128,417
Accrued workers' compensation	-	212,414	1,216	-	213,630
Estimated claims payable	-	79,805	-	-	79,805
Accrued interest payable	-	6,199	986	-	7,185
Deferred tax, grant and subvention revenues	61,771	(56,485)	-	-	5,286
Due to other funds/internal balances	89,861	-	859	(58,301)	32,419
Deferred credits and other liabilities	353,444	(232,887)	207	-	120,764
Bonds, loans, capital leases, and other payables	50,000	1,378,064	247,270	-	1,675,334
Total Liabilities	739,250	1,511,844	260,952	(58,301)	2,453,745
Fund balances/net assets					
Total fund balances/net assets	717,574	808,673	(219,506)	-	1,306,741
Total liabilities and fund balances/net assets	$ 1,456,824	$ 2,320,517	$ 41,446	$ (58,301)	$ 3,760,486

(1) When capital assets (land, infrastructure, buildings, and equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets, net of accumulated depreciation, among the assets of the City as a whole.

Cost of capital assets	$ 2,876,826
Accumulated depreciation	(565,218)
	$ 2,311,608

Bond issuance costs are expended in governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets. $ 8,909

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued vacation and sick leave pay	$ (124,734)
Accrued workers' compensation	(212,414)
Estimated claims payable	(79,805)
Bonds, loans, capital leases, and other payables	(1,378,064)
Deferred credits and other liabilities	(1,184)
	$ (1,796,201)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid. $ (6,199)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.

Deferred tax, grant and subvention revenue	$ 56,485
Deferred credits and other liabilities	234,071
	$ 290,556

(2) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Net assets before adjustments	(2,429)
Adjustments for internal balances with San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(246,812)
Deferred charges and other assets	2,737
Deferred credits and other liabilities	26,998
	$ (219,506)

(b) Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The net change in fund balances for governmental funds, ($165,764), differs from the change in net assets for governmental activities ($6,081), reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

	Total Governmental Funds	Long-term Revenues/ Expenses(3)	Capital-related Items(4)	Internal Service Funds(5)	Long-term Debt Transactions(6)	Statement of Activities Totals
Revenues						
Property taxes	$ 721,437	$ 2,349	$ -	$ -	$ -	$ 723,786
Business taxes	264,832	-	-	-	-	264,832
Other local taxes	509,455	-	-	-	-	509,455
Licenses, permits and franchises	23,788	-	-	-	-	23,788
Fines, forfeitures and penalties	25,183	-	-	-	-	25,183
Interest and investment income	11,630	-	-	226	-	11,856
Rents and concessions	58,979	-	-	-	-	58,979
Intergovernmental:						-
Federal	344,155	-	-	-	-	344,155
State	630,953	-	-	-	-	630,953
Other	18,259	-	-	-	-	18,259
Charges for services	217,647	-	-	-	-	217,647
Other revenues	57,144	-	-	-	-	57,144
Total revenues	2,883,462	2,349	-	226	-	2,886,037
Expenditures/Expenses						
Current:						
Public protection	706,758	15,337	10,019	(4,534)	-	727,580
Public works, transportation and commerce	165,555	(2,617)	14,924	(8,683)	-	169,179
Human welfare and neighborhood development	662,948	(12,103)	524	(119)	-	651,250
Community health	512,914	4,089	820	(757)	-	517,066
Culture and recreation	273,163	(17,583)	17,686	(5,345)	(35,734)	232,187
General administration and finance	153,709	13,765	15,862	(78)	-	183,258
General City responsibilities	74,623	748		(2,278)	437	73,530
Debt service:						
Principal retirement	78,831	-	-	-	(78,831)	-
Interest and fiscal charges	61,886	-	-	5,467	18,778	86,131
Payments to refunded bond escrow agent	-	-	-	-	-	-
Bond issuance costs	1,350	-	-	-	(1,350)	-
Capital oulay	165,872	-	(165,872)	-	-	-
Total expenditures/expenses	2,857,609	1,636	(106,037)	(16,327)	(96,700)	2,640,181
Other financing sources (uses)/changes in net assets						
Net transfers (to) from other funds	(252,192)	-	-	255	-	(251,937)
Issuance of bonds and loans:						
Face value of bonds issued	116,645	-	-	-	(116,645)	-
Premium on issuance of bonds	2,156	-	-	-	(2,156)	-
Discount on issuance of bonds	1,411	-	-	-	(1,411)	-
Payment to bond refunding escrow agent	(65,802)	-	-		65,802	
Other Financing sources - capital leases	6,165	-	-	(6,165)	-	-
Total other financing sources (uses)/changes in net assets	(191,617)	-	-	(5,910)	(54,410)	(251,937)
Net change for the year	$ (165,764)	$ 713	$ 106,037	$ 10,643	$ 42,290	$ (6,081)

(3)	Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered as available revenues in the governmental funds	$ 2,349
	Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Certain long-term liabilties reported in the prior year statement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the increase in long term liabilities exceeded expenses reported in the statement of activities that do not require the use of current financial resources	$ (39,293)
	Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of activities	37,657
		$ (1,636)
(4)	When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year, and the loss on disposal of capital assets.	
	Capital expenditures	$ 176,174
	Depreciation expense	(63,343)
	Loss on disposal of capital assets	(44)
	Expense of CIP	(6,750)
	Difference	$ 106,037
(5)	Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service fund's costs for the year	$ 10,643
(6)	Lease payments on the Moscone Convention Center (note 8) are reported as a culture and recreation expenditure in the governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liability in the statement of net assets and do not result in an expense in the statement of activities. The City's capital lease obligation was reduced because principal payments were made to lessee.	
	Total property rent payments	$ 35,734
	Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of activities.	
	Bond issuance costs	$ 1,350
	Amortization of bond issuance costs	(437)
	Difference	$ 913
	Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized in the statement of net assets. This is the amount of premiums capitalized during the current period	$ (1,411)
	Repayment of bond principal is reported as expenditures in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in expenses in the statement of activities. The City's bonded debt was reduced because principal payments were made to bond holders.	
	Principal payments made	$ 78,831
	Payments to escrow for refunded debt	65,802
		$ 144,633
	Bond proceeds and capital leases are reported as other financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt and entering into capital lease arrangments increase long-term liabilities in the statement of net assets and do not affect the statement of activities. Proceeds were received from:	
	General obligation bonds	$ (50,440)
	Refunding general obligation bonds and refunding settlement obligation bonds	(66,205)
	Loans	(2,156)
		(118,801)
		$ 25,832

Interest expense in the statement of activities differs from the amount reported in governmental funds because (1) additional accrued and accreted interest was calculated for bonds, notes payable and capital leases, (2) amortization of bond discounts, premiums and refunding losses which are expended within the fund statements, and (3) additional interest expense was recognized on the accrual of an arbitrage rebate liability which will not be recognized in the governmental funds until the liability is due and payable.

Interest payment on capital lease obligations on the Moscone Convention Center	(18,849)
Amortization of bond premiums, discounts and refunding losses	(327)
Reduction in arbitrage rebate liability	398
	$ (18,778)

(4) BUDGETARY RESULTS RECONCILED TO RESULTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Budgetary Results Reconciliation

The budgetary process is based upon accounting for certain transactions on a basis other than GAAP basis. The results of operations are presented in the budget-to-actual comparison statement in accordance with the budgetary process (Budget basis) to provide a meaningful comparison with the budget.

The major differences between the Budget basis "actual" and GAAP basis are timing differences. Timing differences represent transactions that are accounted for in different periods for Budget basis and GAAP basis reporting. Certain revenues accrued on a Budget basis have been deferred for GAAP reporting. These primarily relate to the accounting for property tax revenues under the Teeter Plan (note 6).

The fund balance of the General Fund as of June 30, 2004 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows (in thousands):

	General Fund
Fund balance - Budget basis	$ 222,611
Unrealized gain on investments	277
Deferred charges and assets not available for appropriation	7,142
Cumulative excess property tax revenues recognized on a Budget basis	(19,882)
Other	287
Fund balance - GAAP basis	$ 210,435

General Fund Budget basis fund balance at June 30, 2004 is composed of the following (in thousands):

Reserved for rainy day	$ 55,139	
Reserved for encumbrances	42,501	
Reserved for appropriation carryforward	32,813	
Reserved for subsequent years' budgets:		
Reserved for budget incentive program	2,588	
Reserved for salaries and benefits (MOU)	3,654	
Reserved for litigation	2,940	
Total reserved amounts		$ 139,635
Designated for litigation and contingencies	27,970	
Unreserved - available for appropriation	55,006	
Total unreserved amounts		82,976
Fund Balance, June 30, 2004 - Budget basis		$ 222,611

Of the $55.0 million unreserved-available for appropriation, $26.3 million has been subsequently appropriated as part of the General Fund budget for fiscal year 2005.

(5) DEPOSITS AND INVESTMENTS

The City's deposits and investments are invested pursuant to investment policy guidelines established by the City Treasurer subject to review by the Treasury Oversight Committee. The Treasury Oversight Committee established under California Government Code Sections 27130 to 27137 is composed of various City officials and representatives of agencies with large cash balances. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses the soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. Investments permitted by the City's investment policy include the following:

- Public Time Deposits
- Public Demand Accounts
- Negotiable Certificates of Deposit
- U.S. Government Securities
  - Treasury Bills
  - Treasury Bonds
  - Treasury Notes
- Federal Agencies
  - Federal Home Loan Bank
  - Federal Farm Credit Bank
  - Federal National Mortgage Association
  - Federal Mortgage Corporation
  - Student Loan Marketing Association
- Money Market Instruments
  - Commercial Paper
  - Bankers' Acceptances
  - Repurchase Agreements
  - Reverse Repurchase Agreements

The City's investment policy identifies certain restrictions related to the above investments. Investments held by the City Treasurer during the year did not include repurchase agreements or reverse repurchase agreements.

Other deposits and investments maintained outside the City Treasury are invested pursuant to governing bond covenants or California Government Code provisions. The following provides a brief description of the nature of these investments.

Employees' Retirement System

The Retirement System's funds are invested pursuant to policy guidelines established by the Retirement System's Board. The objective of the investment policy is to maximize the expected return of the fund at an agreed upon level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified. As of June 30, 2004, the Retirement System had no investments in any one organization that represented 5% or more of plan net assets. Investments held by the Retirement System during the year did not include reverse repurchase agreements.

Other Funds

Other funds consist primarily of deposits and investments with trustees related to the issuance of bonds and to certain loan programs operated by the City. These funds are invested either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with grant agreements and may be restricted for the issuance of loans.

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Component Units

The investment policy of the Redevelopment Agency is governed by Article 2 of the California Government Code (Code). Investments are restricted to certain types of instruments and certain of these instruments are only allowed within limits. The Code permits repurchase agreements, but reverse repurchase agreements require the prior approval of the Agency Commission. The Agency does not participate in reverse repurchase agreements or other high-risk investments as defined by the Agency's investment policy. It is the Agency's intention to hold investments until maturity, unless earlier liquidation would result in an investment gain.

The funds of the TIDA are invested solely in the City Treasury.

Deposits and investments

Total City deposits and investments at fair value are as follows (in thousands):

	Primary Government				Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury	$ 729,748 [1]	$ 674,887	$ 392,585 [2]	$ 1,797,220	$ 2,096
Deposits and investments outside City Treasury	100,151 [3]	8,295	12,421,630	12,530,076	179,127
Restricted assets:					
Deposits and investments with City Treasury	-	423,472	-	423,472	-
Deposits and investments outside City Treasury	-	325,786	-	325,786	236,021
Invested securities lending collateral			1,356,618	1,356,618	-
Total deposits and investments	$ 829,899	$ 1,432,440	$ 14,170,833	$ 16,433,172	$ 417,244
Deposits	$ 14,579	$ 4,674	$ 13,867	$ 33,120	$ 65,467
Investments	815,320	1,427,766	14,156,966	16,400,052	351,777
Total deposits and investments	$ 829,899	$ 1,432,440	$ 14,170,833	$ 16,433,172	$ 417,244

[1] Includes deposits and investments with the City Treasury of total governmental funds ($723,043) and internal service funds ($6,705).

[2] Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds ($87,187), investment trust fund ($206,091) and agency funds ($99,307).

[3] Includes deposits and investments outside the City Treasury of total governmental funds ($74,426) and internal service funds ($25,725).

Cash and Deposits

The City had cash and deposits at June 30, 2004, as follows (in thousands):

	Primary Government						Component Units	
	Governmental Activities		Business-type Activities		Fiduciary Funds			
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash on hand	$ 147	$ -	$ 617	$ -	$ -	$ -	$ 1	$ -
Federally insured deposits	600	600	1,353	1,352	-	-	26	1,527
Collateralized deposits*	13,832	101,500	170	60	-	-	65,440	65,439
Uninsured and uncollateralized	-	-	2,534	2,428	13,867	13,867	-	-
	$ 14,579	$ 102,100	$ 4,674	$ 3,840	$ 13,867	$ 13,867	$ 65,467	$ 66,966

* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2004, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks of approximately $88.4 million. Of the $88.4 million of outstanding checks, $38.7 million relates to the San Francisco Unified School District and Community College District which have been reflected in an investment trust fund.

The California Government Code requires California banks and savings and loan associations to secure the City's deposits not covered by Federal depository insurance by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the City's deposits or 150% of mortgage backed collateral. The collateral must be held at the pledging bank's trust department or other bank, acting as the pledging bank's agent, in the City's name.

The $16.4 million of uninsured and uncollateralized cash outlined above consists of $13.9 million of cash held on behalf of the Employees' Retirement System by a third party trustee, $0.17 million, $2.1 million, $0.08 million, $0.22 million, $0.01 million, of cash held on behalf of Port Commission, Parking Garages, San Francisco General Hospital, Municipal Railway, and Parking and Traffic, respectively, by third party trustees.

Investments

Investments of the City are summarized below. The investments that are represented by specific identifiable investment securities are classified as to custodial credit risk by three categories. They are as follows:

Category 1 - includes investments that are insured or registered or securities held by the City or its agent in the City's name;

Category 2 - includes uninsured and unregistered investments, with the securities held by counterparty's trust department or agent in the City's name;

Category 3 - includes uninsured and unregistered investments, with the securities held by the counterparty, or by its trust department or agent but not in the City's name.

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At June 30, 2004, investments included the following (in thousands):

	Category			Carrying
Type of Investment	1	2	3	value
Primary Government including Pension and investment Trust Funds				
Investments in City Treasury:				
U.S. government securities	$ 1,181,984	$ -	$ -	$ 1,181,984
Federal agencies	175,333	-	-	175,333
Commercial Paper	565,269	-	-	565,269
Negotiable certificates of deposit	289,955	-	-	289,955
Public time deposit	100	-	-	100
Total Investments in City Treasury	2,212,641	-	-	2,212,641
Employees' Retirement System (ERS):				
U.S. government securities	285,866	-	2,026	287,892
Short term bills and notes	16,989	-	33,987	50,976
Debt securities	1,046,155	-	75,912	1,122,067
Equity securities	4,770,379	-	6,902	4,777,281
Total categorized investments	6,119,389	-	118,827	6,238,216
Non-categorized investments:				
Mortgage backed securities				554,065
Fixed interest mutual funds				551,627
Equity investments, including mutual funds				711,151
Real estate				958,368
Venture capital				1,311,960
Money market mutual funds				757,205
Investment in lending agents' short-term investment pool				1,356,618
Investments lent to broker-dealers				1,325,171
Total non-categorized investments				7,526,165
Total Employees' Retirement System				13,764,381
Other Funds:				
U.S. governmental securities	56,434	4195	327,951	388,580
Equity Securities	770	-	-	770
Total categorized investments	57,204	4,195	327,951	389,350
Non-categorized investments:				
Commercial Paper				722
Money market mutual funds				32,958
Total non-categorized investments				33,680
Total Other Funds				423,030
Total Primary Government including Pension and Investment Trust Funds	$ 8,389,234	$ 4,195	$ 446,778	$ 16,400,052
Component Units -				
Redevelopment Agency				
U.S. government securities and Federal agencies	$ 9,638	$ 43,600	$ 54,007	107,245
Bankers' acceptances	-	6,470	-	6,470
Commercial paper	-	7,626	-	7,626
Corporate medium term notes	-	2,003	-	2,003
Repurchase agreements	-	-	1,802	1,802
Total categorized investments	9,638	59,699	55,809	125,146
Non-categorized investments:				
Guaranteed investment contracts				23,119
Local agency investment fund				108,018
Money market mutual funds				93,398
Total non-categorized investments				224,535
Total Redevelopment Agency				349,681
Treasure Island Development Authority				
Investments in City Treasury:				
U.S. government securities	2,096	-	-	2,096
Total Treasure Island Development Authority	2,096	-	-	2,096
Total Component Units	$ 11,734	$ 59,699	$ 55,809	$ 351,777

The types of investments made during the year were substantially the same as those held as of June 30, 2004. Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. City management believes the liquidity in the portfolio is sufficient to meet cash flow requirements and to preclude the City from having to sell investments below original cost for that purpose. The interest and net investment gain is comprised of the following at June 30, 2004 (in thousands):

Interest and dividends, net of amounts capitalized	$ 336,004
Net increase in the fair value of investments	1,421,130
Total investment gain	$ 1,757,134

The net increase in the fair value of investments takes into account all changes in fair value (including purchases and sales) that occurred during the year. The primary component of this figure is the net increase in fair value of pension investments.

The earned yield, which includes net gains on investments sold, on all investments held by the City Treasurer for the fiscal year ended June 30, 2004 was 1.860%.

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2004 (in thousands):

Statement of Net Assets	
Net assets held in trust for all pool participants........	$ 2,222,788
Equity of internal pool participants........................	2,017,671
Equity of external pool participants........................	205,117
Total Equity..	$ 2,222,788
Statement of Changes in Net Assets	
Net assets at July 1, 2003..................................	$ 2,315,169
Net change in investments by pool participants.......	(92,381)
Net assets at June 30, 2004...........................	$ 2,222,788

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2004 (in thousands):

Types of Investment	Rates	Maturities	Par Value	Carrying Value
U.S. government securities................	0.89% - 3.53%	07/01/04-08/15/08	$ 1,188,000	$ 1,184,080
Federal agencies............................	1.00% - 1.42%	07/07/04-09/29/04	176,000	175,333
Negotiable certificate of deposits........	1.03% - 1.26%	07/08/04-08/24/04	290,000	289,955
Commercial paper..........................	1.03% - 1.15%	07/02/04-08/30/04	567,000	565,269
Public time deposits........................	1.20%	07/17/04	100	100
			$ 2,221,100	2,214,737
Carrying amount of deposits in Treasurer's Pool...				8,051
Total cash and investments in Treasurer's Pool...				$ 2,222,788

Supplemental disclosure of non-cash investing and financing activities

San Francisco International Airport

During the fiscal year 2004, the San Francisco International Airport (SFO) issued Second Series Revenue Bonds Issue 30 and Issue 31 to refund previously issued debt. The $35.8 million in proceeds from Issue 30 and the $224.0 million in proceeds from Issue 31 were deposited immediately into irrevocable trusts for the defeasance of $259.8 million of Second Series Refunding Bonds.

Bond issuance costs of $7.6 million that were deducted from the proceeds of the Second Series Revenue Bonds were capitalized and will be amortized over the debt repayment period.

Other Non Cash Transactions (in thousands):

	General Hospital Medical Center	Port of San Francisco	Laguna Honda Hospital	Internal Service Funds	Total 2004	Total 2003
Loss on abandonment of property and equipment.......	$ -	$ 39	$ -	$ -	$ 39	$ 119
Acquisition of capital assets on accounts payable and capital leases..................	48	363	2,102	1,237	3,750	1,616
	$ 48	$ 402	$ 2,102	$ 1,237	$ 3,789	$ 1,735

(6) PROPERTY TAXES

The City is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law. Property taxes are levied on both real and personal property. Liens for secured property taxes attach on January 1st preceding the fiscal year for which taxes are levied. Secured property taxes are levied on the first business day of September and are payable in two equal installments: the first is due on November 1st and delinquent with penalties after December 10th; the second is due February 1st and delinquent with penalties after April 10th. Secured property taxes that are delinquent and unpaid as of June 30th are subject to redemption penalties, costs, and interest when paid. If not paid at the end of five years, the property may be sold at public auction and the proceeds used to pay delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Unsecured personal property taxes do not represent a lien on real property. Those taxes are due on January 1st and become delinquent with penalties after August 31st. Supplemental property tax assessments associated with changes in the assessed valuation due to transfer of ownership in property or upon completion of new construction are levied in two equal installments and have variable due dates based on the dates of the underlying transaction.

Since the passage of California's Proposition 13, beginning with fiscal year 1978-79, general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-76 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise at the lesser of 2% per year or inflation.

The Proposition 13 limitations on general property taxes do not limit taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). Proposition 13 was amended in 1986 to allow property taxes in excess of the 1% tax rate limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters. In 2000, California voters approved Proposition 39 which set the approval threshold at 55% for school facilities-related bonds. These "override" taxes for debt service amounted to approximately $101.2 million for the year ended June 30, 2004, of which $2.7 million was for the San Francisco Community College District (CCD).

Taxable valuation for the year ended June 30, 2004 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately $95.4 billion, an increase of 5.8%. The secured tax rate was $1.107 per $100 of assessed valuation. After adjusting for a State mandated property tax shift to schools, the tax rate is comprised of: $0.65 for general government, $0.107, for bond debt service, and $0.35 for the San Francisco Unified School District, CCD, the Bay Area Air Quality Management District, and the Bay Area Rapid Transit District. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 1.81% and 3.78%, respectively, of the current year tax levy, for an average delinquency rate of 1.96% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required, transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve, as of June 30, 2004 was $8.9 million, which is included in the Agency Fund for reporting purposes. The City has funded payment of accrued and current delinquencies, together with the required reserve, from interfund borrowing.

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2004, was as follows (in thousands):

Governmental Activities:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 141,608	$ 2,032	$ -	$ 143,640
Construction in progress	215,658	166,478	(136,459)	245,677
Total capital assets, not being depreciated	357,266	168,510	(136,459)	389,317
Capital assets, being depreciated:				
Facilities and improvements	2,015,981	76,401	-	2,092,382
Machinery and equipment	232,463	13,229	(1,573)	244,119
Infrastructure	131,808	49,168	-	180,976
Property held under lease	4,816	-	-	4,816
Total capital assets, being depreciated	2,385,068	138,798	(1,573)	2,522,293
Less accumulated depreciation for:				
Facilities and improvements	359,812	37,372	-	397,184
Machinery and equipment	169,564	23,410	(1,529)	191,445
Infrastructure	487	3,651	-	4,138
Property held under lease	4,280	-	-	4,280
Total accumulated depreciation	534,143	64,433	(1,529)	597,047
Total capital assets, being depreciated, net	1,850,925	74,365	(44)	1,925,246
Governmental activities capital assets, net	$ 2,208,191	$ 242,875	$ (136,503)	$ 2,314,563

Business-type Activities:

San Francisco International Airport

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 2,316	$ -	$ -	$ 2,316
Construction in progress	106,967	90,164	(70,557)	126,574
Total capital assets, not being depreciated	109,283	90,164	(70,557)	128,890
Capital assets, being depreciated:				
Facilities and improvements	4,604,727	66,137	-	4,670,864
Machinery and equipment	70,240	1,241	(1,274)	70,207
Easements	131,848	3,750	-	135,598
Total capital assets, being depreciated	4,806,815	71,128	(1,274)	4,876,669
Less accumulated depreciation for:				
Facilities and improvements	850,011	148,496	-	998,507
Machinery and equipment	54,953	5,966	(1,217)	59,702
Easements	39,795	6,650	-	46,445
Total accumulated depreciation	944,759	161,112	(1,217)	1,104,654
Total capital assets, being depreciated, net	3,862,056	(89,984)	(57)	3,772,015
Capital assets, net	$ 3,971,339	$ 180	$ (70,614)	$ 3,900,905

Water Department

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 18,112	$ -	$ (183)	$ 17,929
Construction in progress	117,313	101,027	(132,585)	85,755
Total capital assets, not being depreciated	135,425	101,027	(132,768)	103,684
Capital assets, being depreciated:				
Facilities and improvements	863,745	104,757	-	968,502
Machinery and equipment	95,681	4,951	(727)	99,905
Total capital assets, being depreciated	959,426	109,708	(727)	1,068,407
Less accumulated depreciation for:				
Facilities and improvements	331,830	27,288	-	359,118
Machinery and equipment	53,684	7,822	(700)	60,806
Total accumulated depreciation	385,514	35,110	(700)	419,924
Total capital assets, being depreciated, net	573,912	74,598	(27)	648,483
Capital assets, net	$ 709,337	$ 175,625	$ (132,795)	$ 752,167

Hetch Hetchy Water and Power

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 4,215	$ -	$ -	$ 4,215
Construction in progress	57,664	24,090	(30,657)	51,097
Total capital assets, not being depreciated	61,879	24,090	(30,657)	55,312
Capital assets, being depreciated:				
Facilities and improvements	402,153	24,512	-	426,665
Machinery and equipment	36,912	1,388	(144)	38,156
Total capital assets, being depreciated	439,065	25,900	(144)	464,821
Less accumulated depreciation for:				
Facilities and improvements	225,796	8,270	-	234,066
Machinery and equipment	24,350	1,595	(139)	25,806
Total accumulated depreciation	250,146	9,865	(139)	259,872
Total capital assets, being depreciated, net	188,919	16,035	(5)	204,949
Capital assets, net	$ 250,798	$ 40,125	$ (30,662)	$ 260,261

Municipal Transportation Agency

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 26,245	$ -	$ -	$ 26,245
Construction in progress	190,189	172,858	(80,268)	282,779
Total capital assets, not being depreciated	216,434	172,858	(80,268)	309,024
Capital assets, being depreciated:				
Facilities and improvements	374,938	1,960	(47)	376,851
Machinery and equipment	1,042,893	71,136	(25,392)	1,088,637
Infrastrucuture	693,029	10,644	-	703,673
Total capital assets, being depreciated	2,110,860	83,740	(25,439)	2,169,161
Less accumulated depreciation for:				
Facilities and improvements	115,207	8,234	(45)	123,396
Machinery and equipment	222,982	59,127	(24,659)	257,450
Infrastructure	186,534	22,469	-	209,003
Total accumulated depreciation	524,723	89,830	(24,704)	589,849
Total capital assets, being depreciated, net	1,586,137	(6,090)	(735)	1,579,312
Capital assets, net	$ 1,802,571	$ 166,768	$ (81,003)	$ 1,888,336

General Hospital Medical Center

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 542	$ -	$ -	$ 542
Construction in progress	2,327	1,228	-	3,555
Total capital assets, not being depreciated	2,869	1,228	-	4,097
Capital assets, being depreciated:				
Facilities and improvements	124,664	1,239	-	125,903
Machinery and equipment	45,531	399	-	45,930
Total capital assets, being depreciated	170,195	1,638	-	171,833
Less accumulated depreciation for:				
Facilities and improvements	79,109	4,260	-	83,369
Machinery and equipment	34,251	2,374	-	36,625
Total accumulated depreciation	113,360	6,634	-	119,994
Total capital assets, being depreciated, net	56,835	(4,996)	-	51,839
Capital assets, net	$ 59,704	$ (3,768)	$ -	$ 55,936

Clean Water Program

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 22,168	$ -	$ -	$ 22,168
Construction in progress	8,524	23,070	(9,215)	22,379
Total capital assets, not being depreciated	30,692	23,070	(9,215)	44,547
Capital assets, being depreciated:				
Facilities and improvements	1,916,830	6,685	-	1,923,515
Machinery and equipment	23,444	759	-	24,203
Total capital assets, being depreciated	1,940,274	7,444	-	1,947,718
Less accumulated depreciation for:				
Facilities and improvements	625,397	37,535	-	662,932
Machinery and equipment	19,612	559	-	20,171
Total accumulated depreciation	645,009	38,094	-	683,103
Total capital assets, being depreciated, net	1,295,265	(30,650)	-	1,264,615
Capital assets, net	$ 1,325,957	$ (7,580)	$ (9,215)	$ 1,309,162

Port of San Francisco

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 119,512	$ 19	$ (79)	$ 119,452
Construction in progress	22,709	7,567	(18,220)	12,056
Total capital assets, not being depreciated	142,221	7,586	(18,299)	131,508
Capital assets, being depreciated:				
Facilities and improvements	250,121	17,105	(1,400)	265,826
Machinery and equipment	12,877	1,125	(634)	13,368
Total capital assets, being depreciated	262,998	18,230	(2,034)	279,194
Less accumulated depreciation for:				
Facilities and improvements	150,323	8,348	(1,371)	157,300
Machinery and equipment	7,241	1,199	(483)	7,957
Total accumulated depreciation	157,564	9,547	(1,854)	165,257
Total capital assets, being depreciated, net	105,434	8,683	(180)	113,937
Capital assets, net	$ 247,655	$ 16,269	$ (18,479)	$ 245,445

Laguna Honda Hospital

	Balance July 1, 2003	Increases *	Decreases *	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 914	$ -	$ -	$ 914
Construction in progress	40,510	16,064	-	56,574
Total capital assets, not being depreciated	41,424	16,064	-	57,488
Capital assets, being depreciated:				
Facilities and improvements	26,564	824	-	27,388
Machinery and equipment	12,611	8	-	12,619
Property held under lease	824	2,294	(824)	2,294
Total capital assets, being depreciated	39,999	3,126	(824)	42,301
Less accumulated depreciation for:				
Facilities and improvements	20,355	1,701	-	22,056
Machinery and equipment	11,644	206	(20)	11,830
Property held under lease	721	46	(721)	46
Total accumulated depreciation	32,720	1,953	(741)	33,932
Total capital assets, being depreciated, net	7,279	1,173	(83)	8,369
Capital assets, net	$ 48,703	$ 17,237	$ (83)	$ 65,857

* The increases and decreases include transfers of categories of fixed assets from properties held under lease to facilities and improvements.

Other Fund - San Francisco Market Corporation

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Construction in progress	$ -	$ -	$ -	$ -
Total capital assets, not being depreciated	-	-	-	-
Capital assets, being depreciated:				
Facilities and improvements	9,472	11	-	9,483
Machinery and equipment	25	4	-	29
Total capital assets, being depreciated	9,497	15	-	9,512
Less accumulated depreciation for:				
Facilities and improvements	3,990	266	-	4,256
Machinery and equipment	-	-	-	-
Total accumulated depreciation	3,990	266	-	4,256
Total capital assets, being depreciated, net	5,507	(251)	-	5,256
Capital assets, net	$ 5,507	$ (251)	$ -	$ 5,256

Total Business-type Activities

	Balance July 1, 2003	Increases *	Decreases *	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 194,024	$ 19	$ (262)	$ 193,781
Construction in progress	546,203	436,068	(341,502)	640,769
Total capital assets, not being depreciated	740,227	436,087	(341,764)	834,550
Capital assets, being depreciated:				
Facilities and improvements	8,573,214	223,231	(1,448)	8,794,997
Machinery and equipment	1,340,214	81,011	(28,171)	1,393,054
Infrastructure	693,029	10,644	-	703,673
Property held under lease	824	2,294	(824)	2,294
Easements	131,848	3,750	-	135,598
Total capital assets, being depreciated	10,739,129	320,930	(30,443)	11,029,616
Less accumulated depreciation for:				
Facilities and improvements	2,402,018	244,399	(1,416)	2,645,001
Machinery and equipment	428,717	78,848	(27,218)	480,347
Infrastructure	186,534	22,468	-	209,002
Property held under lease	721	46	(721)	46
Easements	39,795	6,650	-	46,445
Total accumulated depreciation	3,057,785	352,411	(29,355)	3,380,841
Total capital assets, being depreciated, net	7,681,344	(31,481)	(1,088)	7,648,775
Capital assets, net	$ 8,421,571	$ 404,606	$ (342,852)	$ 8,483,325

* The increases and decreases include transfers of categories of fixed assets from properties held under lease to facilities and improvements.

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

Governmental Activities	
Public protection	$ 10,692
Public works transportation and commerce	15,268
Human welfare and neighborhood development	534
Community Health	884
Culture and recreation	22,431
General administration and finance	13,533
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis based on their usage of the assets	1,091
Total depreciation expense - governmental activities	$ 64,433
Business-type activities:	
Airport	$ 161,112
Water	35,110
Power	9,865
Transit	89,830
Hospitals	8,587
Sewer	38,094
Port	9,547
Market	266
Total depreciation expense - business-type activities	$ 352,411

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Department that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Department and Hetch Hetchy Water and Power (Hetch Hetchy), the CWP, MTA, Laguna Honda Hospital (LHH), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 175 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of MTA, building and structures of LHH, and pier substructures of the Port and totaled $1.5 billion as of June 30, 2004. In addition, the Hetch Hetchy had utility type assets with useful lives over 100 years which totaled $4.5 million at June 30, 2004.

During the fiscal year ended June 30, 2004, the City's enterprise funds incurred total interest expense and interest income of approximately $274 million and $17.6 million, respectively. Of these amounts, interest expense and interest income of approximately $8.8 million and $0 million respectively, was capitalized as part of the cost of constructing proprietary capital assets. The net amount of approximately $8.8 million was capitalized into capital assets.

During fiscal year ended June 30, 2004, Water, Hetch Hetchy, and CWP expensed $27 million, $7.8 million, $2.5 million respectively, related to capitalized design and planning costs on certain projects which were discontinued. The amounts of the write-off were recognized as other operating expense in the accompanying financial statements.

Component Unit - Redevelopment Agency

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2004 was as follows (in thousands):

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Property held under lease	$ 77,612	$ 5,080	$ -	$ 82,692
Construction in progress	7,572	23,996	-	31,568
Total capital assets, not being depreciated/amortized	85,184	29,076	-	114,260
Capital assets, being depreciated:				
Facilities and improvements	137,212	-	-	137,212
Leasehold improvements	21,602	-	-	21,602
Machinery and equipment	7,727	32	-	7,759
Total capital assets, being depreciated	166,541	32	-	166,573
Less accumulated depreciation and amortization for:				
Facilities and improvements	28,902	3,430	-	32,332
Leasehold improvements	6,922	432	-	7,354
Machinery and equipment	6,763	394	-	7,157
Total accumulated depreciation and amortization	42,587	4,256	-	46,843
Total capital assets, being depreciated, net	123,954	(4,224)	-	119,730
Redevelopment Agency capital assets, net	$ 209,138	$ 24,852	$ -	$ 233,990

(8) BONDS, LOANS, CAPITAL LEASES AND OTHER PAYABLES

The following is a summary of long-term obligations of the City as of June 30, 2004 (in thousands):

GOVERNMENTAL ACTIVITIES

Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates	Amount
GENERAL OBLIGATION BONDS (a):			
Affordable housing	2021	4.0 to 7.375%	$ 87,540
City hall improvement project	2005	5.0%	2,810
Fire protection	2005	5.2%	630
Library	2022	2.5 to 6.8%	37,495
Museums	2019	4.5 to 5.5%	15,100
Parks and playgrounds	2023	2.0 to 6.5%	72,295
Public safety improvements	2005	5.2%	335
Schools	2023	2.0 to 6.5%	139,925
Zoo facilities	2022	2.5 to 6.0%	35,065
Refunding	2016	3.0 to 5.75%	453,155
General obligation bonds - governmental activities			844,350
LEASE REVENUE BONDS:			
San Francisco Finance Corporation* (b) & (e)	2030	2.0 to 5.5%	245,680
Lease revenue bonds - governmental activities			245,680
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation (c) & (d)	2034	3.0 to 5.875%	290,635
Commercial Paper (c)	2005	1.02 to 1.05%	50,000
Loans (c), (d) & (f)	2014	4.3 to 6.7%	9,515
Capital leases payable (c) & (f)	2024	1.5 to 7.05%	194,815
Settlement Obligation Bonds (d)	2011	2.0 to 3.05%	44,275
Accrued vacation and sick leave (d) & (f)			128,417
Accrued workers' compensation (d) & (f)			213,630
Estimated claims payable (d) & (f)			79,805
Other long-term obligations - governmental activities			1,011,092
DEFERRED AMOUNTS:			
Bond issuance premiums			4,912
Bond issuance discounts			(2,509)
Bond refunding			(6,339)
Deferred amounts			(3,936)
Governmental activities total long-term obligations			$ 2,097,186

Debt service payments are made from the following sources:
(a) Property tax recorded in the Debt Service Fund.
(b) Lease revenues from participating departments in the General, Special Revenue and Enterprise Funds.
(c) Revenues recorded in the Special Revenue Funds.
(d) Revenues recorded in the General Fund.
(e) Hotel taxes and other revenues recorded in the General and Special Revenue Funds.
(f) User-charge reimbursements from the General, Special Revenue and Enterprise Funds.

Internal Service Funds serve primarily the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included in the above amounts.

*Includes the Moscone Center West Expansion Project which was financed with variable rate bonds that reset weekly. The average interest rate from issuance date of November 2, 2000 through June 30, 2004 was 1.5% The rate at June 30, 2004 was 1%.

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds	2032	1.55 to 8.0%*	$ 4,173,170
Water Department:			
Revenue bonds	2032	2.5 to 6.5%	501,025
Commercial paper	2005	1.05%	25,000
Accreted interest			2,567
Hetch Hetchy Water and Power:			
Notes, loans and other payables	2010	3%	693
Municipal Transportation Agency:			
Municipal Railway			
Capital leases	2005	3.43%	168
Parking and Traffic			
Revenue bonds	2020	4.0 to 6.75%	22,135
Lease revenue bonds	2022	3.7 to 6.0%	11,425
Capital leases	2006	3.41 to 3.5%	393
Notes, loans and other payables**	2010	3.0 to 5.25%	24,299
Downtown Parking - parking revenue refunding bonds	2018	3.0 to 5.375%	12,100
Ellis-O'Farrell - parking revenue refunding bonds	2017	3.5 to 4.7%	5,465
Uptown Parking - revenue bonds	2031	4.5 to 6.0%	18,720
General Hospital Medical Center:			
Capital leases	2009	5.7 to 8.5%	2,205
Clean Water Program:			
Revenue bonds	2025	3.0 to 5.25%	396,270
State of California - Revolving fund loans	2021	2.8 to 3.5%	150,196
Port of San Francisco:			
General Obligation Bonds -			
City and County of San Francisco	2005	6.30%	400
Revenue bonds	2010	5.5 to 9.0%	27,095
Notes, loans and other payables	2029	4.50%	3,436
Capital leases	2005	6.31%	23
Laguna Honda Hospital:			
Capital leases	2009	3.465%	2,102
Accrued vacation and sick leave			73,890
Accrued workers' compensation			183,496
Estimated claims payable			47,631
Deferred Amounts:			
Bond issuance premiums			47,047
Bond issuance discounts			(21,768)
Bond refunding			(86,801)
Business-type activities total long-term obligations			$ 5,622,382

*Includes Second Series Revenue Bonds Issue 31 which were issued in an auction mode. The average interest rate for the period March 25, 2004 through June 30, 2004 was 1.065%.
**Includes an unamortized loan premium of $1.1 million for Parking and Traffic.

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in their respective Enterprise Funds.

COMPONENT UNIT

Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY:			
Lease Revenue Bonds:			
Moscone Convention Center (a)	2024	2.0 to 8.5%	$ 171,651
Hotel Tax Revenue Bonds (b)	2025	4.1 to 6.75%	70,165
Financing Authority Bonds:			
Tax Allocation Revenue Bonds (c)	2030	1.8 to 8.3%	485,897
South Beach Harbor Variable Rate Refunding Bonds (d)	2017	Variable (1.08% at 6/30/04)	11,500
Less deferred amounts:			
Bond issuance premiums			9,641
Refunding loss			(3,263)
Sub-total			745,591
California Department of Boating and Waterways Loan (e)	2037	4.50%	8,000
Accreted Interest payable			142,388
Accrued vacation and sick leave pay			2,733
Component unit total long-term obligations			$ 898,712

Debt service payments are made from the following sources:
(a) Hotel taxes and operating revenues recorded in the Convention Facilities Special Revenue Fund and existing debt service/escrow trust funds.
(b) Hotel taxes from hotels located in the Redevelopment Project Areas.
(c) Property taxes allocated to the Redevelopment Agency based on increased assessed valuations in project areas (note 12) and existing debt service/escrow trust funds.
(d) South Beach Harbor Project cash reserves, property tax increments and project revenues.
(e) South Beach Harbor Project revenues (subordinated to Refunding Bonds).

Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

Legal Debt Limit and Legal Debt Margin

As of June 30, 2004, the City's debt limit (3% of valuation subject to taxation) was $3.0 billion. The total amount of debt applicable to the debt limit was $0.8 billion, net of certain assets in other non-major governmental funds, and other deductions allowed by law. The resulting legal debt margin was $2.2 billion.

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond and has recognized an arbitrage liability of $1.7 million as of June 30, 2004. This arbitrage liability is reported in deferred credits and other liabilities in the governmental activities of the statement of net assets. The Finance Corporation has evaluated their lease revenue bonds and a liability of $0.2 million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2004. Each Enterprise Fund has performed a similar analysis of its debt which is subject to arbitrage rebate requirements. Any material arbitrage liability related to the

debt of the Enterprise Funds has been recorded as a liability in the respective fund. In addition, the Redevelopment Agency records any arbitrage liability in deferred credits and other liabilities.

Assessment District

During June 1996, the City issued $1 million of Limited Obligation Improvement Bonds for the Bayshore Hester Assessment District No. 95-1. These bonds were issued pursuant to the Improvement Bond Act of 1915. The proceeds were used to finance the construction of a new public right-of-way. The bonds began to mature during the fiscal year ended June 30, 1999 and continue through 2026 bearing interest from 6.0% to 6.85%. These bonds do not represent obligations of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. Accordingly, the debt has not been included in the basic financial statements. Assessments collected for repayment of this debt are received in the Tax Collection Agency Fund. Unpaid assessments constitute fixed liens on the lots and parcels assessed within the Bayshore-Hester Assessment District and do not constitute a personal indebtedness of the respective owners of such lots and parcels.

Mortgage Revenue Bonds

In order to facilitate affordable housing, the City issues mortgage revenue bonds for the financing of multifamily rental housing and for below-market rate mortgage financing for first time homebuyers. These obligations are secured by the related mortgage indebtedness and are not obligations of the City. As of June 30, 2004, the aggregate outstanding obligation of such bonds was $132.5 million.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2004, are as follows (in thousands):

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 859,625	$ 72,370	$ (87,645)	$ 844,350	$ 62,300
Lease revenue bonds	252,035	9,530	(15,885)	245,680	18,060
Certificates of participation	296,135	-	(5,500)	290,635	8,005
Settlement obligation bond	49,470	44,275	(49,470)	44,275	5,605
Less deferred amounts:					
For issuance premiums	3,852	1,464	(404)	4,912	-
For issuance discounts	(2,737)	-	228	(2,509)	-
On Refunding	(6,077)	(889)	627	(6,339)	-
Total Bonds payable	1,452,303	126,750	(158,049)	1,421,004	93,970
Commercial Paper	-	50,000	-	50,000	50,000
Loans	9,278	2,156	(1,919)	9,515	2,054
Capital leases	212,649	41,022	(58,856)	194,815	2,046
Accrued vacation and sick leave pay	128,893	72,209	(72,685)	128,417	63,682
Accrued workers' compensation	195,100	54,797	(36,267)	213,630	45,138
Estimated claims payable	58,333	44,064	(22,592)	79,805	19,881
Governmental activities long-term obligations	$ 2,056,556	$ 390,998	$ (350,368)	$ 2,097,186	$ 276,771

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the above totals for governmental activities. At the year ended June 30, 2004, $245.8 million of lease revenue bonds, $1.1 million of capital leases, $0.3 million of loans, $3.7 million of accrued vacation and sick leave pay and $1.2 million of accrued workers' compensation are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2004, are as follows (in thousands):

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds	$ 4,270,600	$ 265,145	$ (362,575)	$ 4,173,170	$ 78,555
Less deferred amounts:					
For issuance premiums	15,489	2,269	(214)	17,544	-
For issuance discounts	(19,946)	-	887	(19,059)	-
On refunding	(41,193)	(16,408)	4,597	(53,004)	-
Total bonds payable	4,224,950	251,006	(357,305)	4,118,651	78,555
Accrued vacation and sick leave pay	11,157	8,183	(7,764)	11,576	5,802
Accrued workers' compensation	5,759	1,822	(2,426)	5,155	1,186
Estimated claims payable	459	178	(178)	459	209
Long-term obligations	$ 4,242,325	$ 261,189	$ (367,673)	$ 4,135,841	$ 85,752

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2004, are as follows (in thousands) - continued:

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Water Department					
Bonds payable:					
Revenue bonds	$ 514,370	$ -	$ (13,345)	$ 501,025	$ 14,055
Less deferred amounts:					
For issuance premiums	7,178	-	(246)	6,932	-
For issuance discounts	(2,633)	-	(76)	(2,709)	-
On refunding	(8,365)	-	480	(7,885)	-
Total bonds payable	510,550	-	(13,187)	497,363	14,055
Accreted interest payable	2,396	171	-	2,567	-
Commercial paper	-	25,000	-	25,000	25,000
Accrued vacation and sick leave pay	7,817	6,686	(5,373)	9,130	4,529
Accrued workers' compensation	9,821	3,968	(2,094)	11,695	2,393
Estimated claims payable	3,823	4,889	(2,601)	6,111	1,349
Long-term obligations	$ 534,407	$ 40,714	$ (23,255)	$ 551,866	$ 47,326
Hetch Hetchy Water and Power					
Notes, loans, and other payables	$ 971	$ -	$ (278)	$ 693	$ 98
Accrued vacation and sick leave pay	1,585	984	(771)	1,798	967
Accrued workers' compensation	1,893	809	(426)	2,276	455
Estimated claims payable	143	1,224	(1,198)	169	38
Long-term obligations	$ 4,592	$ 3,017	$ (2,673)	$ 4,936	$ 1,558
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds	$ 60,250	$ -	$ (1,830)	$ 58,420	$ 2,070
Lease revenue bonds	12,355	-	(930)	11,425	960
Less deferred amounts:					
For issuance premiums	908	87	(26)	969	-
Total bonds payable	73,513	87	(2,786)	70,814	3,030
Notes, loans, and other payables	26,511	1,600	(3,812)	24,299 *	3,827
Capital leases	1,141	23	(603)	561	442
Accrued vacation and sick leave pay	24,034	18,539	(18,354)	24,219	13,851
Accrued workers' compensation	109,053	34,109	(23,722)	119,440	26,535
Estimated claims payable	27,672	15,098	(8,926)	33,844	11,736
Long-term obligations	$ 261,924	$ 69,456	$ (58,203)	$ 273,177	$ 59,421
General Hospital Medical Center					
Capital leases	$ 2,779	$ 242	$ (816)	$ 2,205	$ 630
Accrued vacation and sick leave pay	12,839	10,157	(9,432)	13,564	7,736
Accrued workers' compensation	22,425	4,653	(4,085)	22,993	4,928
Long-term obligations	$ 38,043	$ 15,052	$ (14,333)	$ 38,762	$ 13,294

* Includes an unamortized loan premium of $1.1 million for Parking and Traffic.

The changes in long-term obligations for all enterprise funds for the year ended June 30, 2004, are as follows (in thousands) – continued:

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Clean Water Program					
Bonds payable:					
Revenue bonds	$ 396,270	$ -	$ -	$ 396,270	$ -
Less deferred amounts:					
For issuance premiums	22,391	-	(1,005)	21,386	-
On refunding	(26,850)	-	1,726	(25,124)	-
Total bonds payable	391,811	-	721	392,532	-
State of California - Revolving fund loans	165,125	-	(14,929)	150,196	15,413
Accrued vacation and sick leave pay	3,623	2,091	(1,958)	3,756	2,019
Accrued workers' compensation	3,830	1,737	(767)	4,800	1,006
Estimated claims payable	974	4,249	(462)	4,761	1,044
Long-term obligations	$ 565,363	$ 8,077	$ (17,395)	$ 556,045	$ 19,482
Port of San Francisco					
Bonds payable:					
General obligation bonds	$ 800	$ -	$ (400)	$ 400	$ 400
Revenue bonds	30,690	-	(3,595)	27,095	3,920
Less deferred amounts:					
For issuance premiums	260	-	(44)	216	-
On refunding	(946)	-	158	(788)	-
Total bonds payable	30,804	-	(3,881)	26,923	4,320
Notes, loans, and other payables	3,510	-	(74)	3,436	77
Capital leases	68	-	(45)	23	23
Accrued vacation and sick leave pay	1,890	1,295	(1,346)	1,839	990
Accrued workers' compensation	2,931	1,122	(940)	3,113	650
Estimated claims payable	1,900	2,265	(1,878)	2,287	1,087
Long-term obligations	$ 41,103	$ 4,682	$ (8,164)	$ 37,621	$ 7,147
Laguna Honda Hospital					
Capital leases	$ 222	$ 2,102	$ (222)	$ 2,102	$ 394
Accrued vacation and sick leave pay	7,684	6,038	(5,714)	8,008	4,800
Accrued workers' compensation	13,444	5,160	(4,580)	14,024	2,955
Long-term obligations	$ 21,350	$ 13,300	$ (10,516)	$ 24,134	$ 8,149

A summary of the changes in long-term obligations for all enterprise funds for the year ended June 30, 2004, are as follows (in thousands):

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Total Business-type Activities:					
Bonds payable:					
General obligation bonds	$ 800	$ -	$ (400)	$ 400	$ 400
Revenue bonds	5,272,180	265,145	(381,345)	5,155,980	98,600
Lease revenue bonds	12,355	-	(930)	11,425	960
Less deferred amounts:					
For issuance premiums	46,226	2,356	(1,535)	47,047	-
For issuance discounts	(22,579)	-	811	(21,768)	-
On refunding	(77,354)	(16,408)	6,961	(86,801)	-
Total bonds payable	5,231,628	251,093	(376,438)	5,106,283	99,960
Accreted interest payable	2,396	171	-	2,567	-
Commercial paper	-	25,000	-	25,000	25,000
State of California - Revolving fund loans	165,125	-	(14,929)	150,196	15,413
Notes, loans, and other payables	30,992	1,600	(4,164)	28,428	4,002
Capital leases	4,210	2,367	(1,686)	4,891	1,489
Accrued vacation and sick leave pay	70,629	53,973	(50,712)	73,890	40,694
Accrued workers' compensation	169,156	53,380	(39,040)	183,496	40,108
Estimated claims payable	34,971	27,903	(15,243)	47,631	15,463
Business-type activities long term obligations	$ 5,709,107	$ 415,487	$ (502,212)	$ 5,622,382	$ 242,129

The changes in long term obligations for the component unit for the year ended June 30, 2004, are as follows (in thousands):

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Component Unit:					
Redevelopment Agency					
Bonds payable:					
Revenue bonds	$ 698,261	$ 174,615	$ (145,163)	$ 727,713	$ 52,667
Refunding bonds	11,500	-	-	11,500	700
Less deferred amounts:					
For issuance premiums	8,232	1,958	(549)	9,641	-
On refunding	(213)	(3,064)	14	(3,263)	-
Total bonds payable	717,780	173,509	(145,698)	745,591	53,367
Accreted interest payable	159,478	9,407	(26,497)	142,388	75,171 (1)
Notes, loans, and other payables	8,000	-	-	8,000	-
Accrued vacation and sick leave pay	2,900	21	(188)	2,733	1,168
Component unit - long term obligations	$ 888,158	$ 182,937	$ (172,383)	$ 898,712	$ 129,706

(1) This amount is included in accrued interest payable in the accompanying statement of net assets.

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2004, for governmental activities are as follows (in thousands):

Governmental Activities (1)(2)(3)

Fiscal Year Ending	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005.........	$ 62,300	$ 41,864	$ 18,060	$ 5,176	$ 15,664	$ 16,011	$ 96,024	$ 63,051
2006.........	65,155	39,043	17,780	4,665	15,898	15,428	98,833	59,136
2007.........	68,070	35,874	15,805	4,159	15,483	14,802	99,358	54,835
2008.........	69,065	32,481	13,955	3,712	15,403	14,221	98,423	50,414
2009.........	72,355	29,084	12,265	3,307	16,007	13,623	100,627	46,014
2010-2014..	306,500	93,586	35,800	12,761	65,235	58,725	407,535	165,072
2015-2019..	162,570	33,188	35,670	8,724	50,150	44,933	248,390	86,845
2020-2024..	38,335	3,374	41,445	5,095	43,825	32,972	123,605	41,441
2025-2029..	-	-	44,700	1,978	49,135	21,395	93,835	23,373
2030-2034..	-	-	10,200	115	57,625	7,604	67,825	7,719
Total.........	$ 844,350	$ 308,494	$ 245,680	$ 49,692	$ 344,425	$ 239,714	$ 1,434,455	$ 597,900

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for each enterprise fund is as follows (in thousands):

San Francisco International Airport (1)

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005.........	$ -	$ -	$ 78,555	$ 210,893	$ -	$ -	$ 78,555	$ 210,893
2006.........	-	-	82,700	207,071	-	-	82,700	207,071
2007.........	-	-	90,340	203,796	-	-	90,340	203,796
2008.........	-	-	107,400	198,479	-	-	107,400	198,479
2009.........	-	-	112,810	193,874	-	-	112,810	193,874
2010-2014..	-	-	706,660	874,968	-	-	706,660	874,968
2015-2019..	-	-	880,230	681,003	-	-	880,230	681,003
2020-2024..	-	-	1,080,360	434,965	-	-	1,080,360	434,965
2025-2029..	-	-	892,840	159,363	-	-	892,840	159,363
2030-2034..	-	-	141,275	10,964	-	-	141,275	10,964
Total.........	$ -	$ -	$ 4,173,170	$ 3,175,376	$ -	$ -	$ 4,173,170	$ 3,175,376

(1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
(3) Includes the Moscone Center Expansion Project Lease Revenue Bonds with variable rate bonds currently reset weekly.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for each enterprise fund is as follows (in thousands) – continued:

Water Department (1) (2)

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005...........	$ -	$ -	$ 14,055	$ 23,939	$ -	$ -	$ 14,055	$ 23,939
2006...........	-	-	14,790	23,315	-	-	14,790	23,315
2007...........	-	-	15,450	22,666	-	-	15,450	22,666
2008...........	-	-	16,225	21,921	-	-	16,225	21,921
2009...........	-	-	17,035	21,131	-	-	17,035	21,131
2010-2014...	-	-	97,905	92,969	-	-	97,905	92,969
2015-2019...	-	-	92,120	68,489	-	-	92,120	68,489
2020-2024...	-	-	82,935	47,860	-	-	82,935	47,860
2025-2029...	-	-	86,645	26,502	-	-	86,645	26,502
2030-2034...	-	-	63,865	5,911	-	-	63,865	5,911
Total...........	$ -	$ -	$ 501,025	$ 354,703	$ -	$ -	$ 501,025	$ 354,703

Hetch Hetchy Water and Power (1)

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005...........	$ -	$ -	$ -	$ -	$ 98	$ 20	$ 98	$ 20
2006...........	-	-	-	-	101	17	101	17
2007...........	-	-	-	-	104	14	104	14
2008...........	-	-	-	-	107	11	107	11
2009...........	-	-	-	-	110	8	110	8
2010-2014...	-	-	-	-	173	5	173	5
Total...........	$ -	$ -	$ -	$ -	$ 693	$ 75	$ 693	$ 75

Municipal Transportation Agency (1)(3)

Fiscal Year Ending	General Obligation Bonds		Revenue and Lease Revenue Bonds		Other Long-Term Obligations		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005...........	$ -	$ -	$ 3,030	$ 3,422	$ 3,827	$ 1,104	$ 6,857	$ 4,526
2006...........	-	-	3,375	3,281	4,017	913	7,392	4,194
2007...........	-	-	3,500	3,147	4,218	713	7,718	3,860
2008...........	-	-	3,650	3,003	4,429	502	8,079	3,505
2009...........	-	-	3,810	2,851	6,381	283	10,191	3,134
2010-2014...	-	-	15,400	12,025	279	61	15,679	12,086
2015-2019...	-	-	19,340	7,430	-	-	19,340	7,430
2020-2024...	-	-	6,820	3,343	-	-	6,820	3,343
2025-2029...	-	-	-	1,831	-	-	-	1,831
2030-2034...	-	-	10,920	230	-	-	10,920	230
Total...........	$ -	$ -	$ 69,845	$ 40,563	$ 23,151	$ 3,576	$ 92,996	$ 44,139

(1) The specific year for payment of accreted interest payable (Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
(3) Unamortized loan premiums of $1.1 million (MTA) are not included in principal payments.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for each enterprise fund is as follows (in thousands) – continued:

Clean Water Program [1]

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ -	$ -	$ -	$ 17,219	$ 15,413	$ 4,718	$ 15,413	$ 21,937
2006	-	-	-	17,219	15,915	4,218	15,915	21,437
2007	-	-	33,445	16,718	16,430	3,701	49,875	20,419
2008	-	-	34,500	15,698	13,337	3,168	47,837	18,866
2009	-	-	35,665	14,646	13,761	2,744	49,426	17,390
2010-2014	-	-	132,950	54,664	54,956	7,499	187,906	62,163
2015-2019	-	-	90,925	27,001	17,028	1,650	107,953	28,651
2020-2024	-	-	62,530	8,197	3,356	147	65,886	8,344
2025-2029	-	-	6,255	315	-	-	6,255	315
Total	$ -	$ -	$ 396,270	$ 171,677	$ 150,196	$ 27,845	$ 546,466	$ 199,522

Port of San Francisco [1]

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 400	$ 25	$ 3,920	$ 1,449	$ 77	$ 155	$ 4,397	$ 1,629
2006	-	-	4,135	1,226	81	151	4,216	1,377
2007	-	-	4,370	985	84	148	4,454	1,133
2008	-	-	4,615	727	88	144	4,703	871
2009	-	-	4,885	449	92	140	4,977	589
2010-2014	-	-	5,170	153	525	633	5,695	786
2015-2019	-	-	-	-	656	503	656	503
2020-2024	-	-	-	-	816	342	816	342
2025-2029	-	-	-	-	1,017	141	1,017	141
Total	$ 400	$ 25	$ 27,095	$ 4,989	$ 3,436	$ 2,357	$ 30,931	$ 7,371

A summary of the annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for business type activities follows (in thousands):

Total Business-type Activities [1][2][3]

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 400	$ 25	$ 99,560	$ 256,922	$ 19,415	$ 5,997	$ 119,375	$ 262,944
2006	-	-	105,000	252,112	20,114	5,299	125,114	257,411
2007	-	-	147,105	247,312	20,836	4,576	167,941	251,888
2008	-	-	166,390	239,828	17,961	3,825	184,351	243,653
2009	-	-	174,205	232,951	20,344	3,175	194,549	236,126
2010-2014	-	-	958,085	1,034,779	55,933	8,198	1,014,018	1,042,977
2015-2019	-	-	1,082,615	783,923	17,684	2,153	1,100,299	786,076
2020-2024	-	-	1,232,645	494,365	4,172	489	1,236,817	494,854
2025-2029	-	-	985,740	188,011	1,017	141	986,757	188,152
2030-2034	-	-	216,060	17,105	-	-	216,060	17,105
Total	$ 400	$ 25	$ 5,167,405	$ 3,747,308	$ 177,476	$ 33,853	$ 5,345,281	$ 3,781,186

(1) The specific year for payment of accreted interest payable (Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
(3) Unamortized loan premiums of $1.1 million (MTA) are not included in principal payments.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for the component unit are as follows (in thousands):

Component Unit: Redevelopment Agency [1]

Fiscal Year Ending	Lease Revenue Bonds		Tax Revenue Bonds		Other Long-Term Obligations		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 33,496	$ 82,435	$ 19,170	$ 26,872	$ 700	$ 697	$ 53,366	$ 110,004
2006	5,510	12,361	25,137	27,880	-	697	30,647	40,938
2007	5,146	12,728	24,745	26,959	776	696	30,667	40,383
2008	5,544	13,027	27,118	24,166	907	678	33,569	37,871
2009	5,350	13,289	26,327	24,652	1,107	665	32,784	38,606
2010-2014	24,574	69,784	152,906	100,436	7,202	2,399	184,682	172,619
2015-2019	75,116	19,819	187,157	51,683	2,664	1,564	264,937	73,066
2020-2024	14,035	2,709	70,374	34,849	1,420	1,260	85,829	38,818
2025-2029	2,880	76	21,253	13,777	1,769	910	25,902	14,763
2030-2034	-	-	1,875	221	2,204	475	4,079	696
2035-2037	-	-	-	-	751	46	751	46
Total	$ 171,651	$ 226,228	$ 556,062	$ 331,495	$ 19,500	$ 10,087	$ 747,213	$ 567,810

(1) The specific year for payment of accreted interest payable and accrued vacation and sick leave pay is not practicable to determine.

Governmental Activities Long-term Liabilities

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both governmental and business-type activities; however, general obligation bonds have not been issued for business-type activities since 1979. The net authorized and unissued governmental activities general obligation bonds for the year ended June 30, 2004, are as follows (in thousands):

Governmental Activities - General Obligation Bonds
(in thousands)

Authorized and unissued as of June 30, 2003	$ 922,500
Bonds issued:	
Series 2003A, Neighborhood Recreation and Park Facilities Improvement Bonds	(20,960)
Series 2003B, Educational Facilities Bonds, San Francisco Unified School District	(29,480)
Net authorized and unissued as of June 30, 2004	$ 872,060

There were no new authorizations on general obligation bonds in the year ended June 30, 2004.

In July 2003, the City issued General Obligation Bonds, Neighborhood Recreation and Park Facilities Improvement Bonds, Series 2003A in the amount of $20.9 million. Interest rates range from 2.0% to 5.0%. The bonds mature from June 2004 through June 2023. The bonds were issued to provide funds to finance the acquisition, construction and/or reconstruction of certain improvements to recreation and park facilities in the City, and all other works, property and structures necessary or convenient for these purposes. Debt service payments are funded through ad valorem taxes on property.

In July 2003, the City issued General Obligation Bonds, Educational Facilities Bonds, Series 2003B in the amount of $29.5 million. Interest rates range from 2.0% to 5.0%. The bonds mature from June 2004 through June 2023. The bonds were issued to provide funds to finance the acquisition, construction, installation, equipping and/or reconstruction or completion of educational facilities and other related improvements to be used by the San Francisco Unified School District. Debt service payments are funded through ad valorem taxes on property.

The Port of San Francisco is the only business-type activity that has General Obligation Bonds outstanding which amount to $0.4 million as of June 30, 2004. The bonds were issued in 1971 for the improvement of the San Francisco harbor area. The final maturity is in fiscal year 2004-2005. Debt service payments are funded from Port's revenues.

Current Refundings

In June 2004, the City issued $21.9 million of General Obligation Refunding Bonds, Series 2004-R1 with interest rates ranging from 3.0% to 4.0% (maturing from June 2005 through June 2014) to refund all or a portion of the City's outstanding General Obligation Bonds as follows:

General Obligation Refunding Bonds
(in thousands)

Description of Refunded Bonds	Amount Refunded	Average Interest Rate
Series 1995A – Public Safety Improvement Projects, 1990	$4,560	5.25%
Series 1995B – Golden Gate Park Improvements, 1992	6,755	5.25%
Series 1996A – City Hall Improvement Project	6,055	5.11%
Series 1996B – Public Safety Improvement Projects, 1989	355	5.30%
Series 1996C – Fire Department Facilities Project, 1992	660	5.30%
Series 1996D – School District Facilities Improvements, 1994	1,960	5.30%
Series 1996E – Asian Art Museum Relocation Project	1,160	5.30%
Total	$21,525	

The net proceeds of $21.9 million (including original issue premium of $0.3 million, and after payment of $0.4 million in underwriting fees and other issuance costs) were used to purchase certain direct obligations of the United States of America. These securities were deposited into an escrow account held by the Treasurer. The Treasurer applied the principal of and interest on the escrow securities to the redemption of the respective refunded bonds on June 25, 2004.

Although the refunding resulted in the recognition of an accounting loss of $0.3 million for the year ended June 20, 2004, the City in effect reduced its aggregate debt service payments by $1 million over the next 10 years, and obtained an economic gain (difference between preset value of the old and new debt service payments) of $0.9 million.

Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2004 were as follows:

Governmental Activities - Lease Revenue Bonds
(in thousands)

Authorized and unissued as of June 30, 2003	$ 126,107
Increase in authorization in this fiscal year:	
Current year annual increase in Finance Corporation's equipment program	1,796
Current year maturities in Finance Corporation's equipment program	6,845
Bonds issued:	
Series 2004A, San Francisco Finance Corporation	(9,530)
Net authorized and unissued as of June 30, 2004	$ 125,218

Finance Corporation

The purpose of the Finance Corporation is to provide a means to publicly finance through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

The Finance Corporation uses lease revenue bonds to finance the purchase or construction of property and equipment, which are in turn leased to the City under the terms of an Indenture and Equipment Lease Agreement. These assets are then recorded in the basic financial statements of the City. Since the sole purpose of the bond proceeds is to provide lease financing to the City, any amounts that are not applied towards the acquisition or construction of real and personal property such as unapplied acquisition funds, bond issue costs, amounts withheld pursuant to reserve fund requirements, and amounts designated for capitalized interest are recorded as deferred credits until such time as they are used for their intended purposes.

(a) Equipment Lease Program

In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to $20 million of equipment through a non-profit corporation using tax-exempt obligations.

Beginning July 1, 1991, the Finance Corporation was authorized to issue lease revenue bonds up to $20 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of June 30, 2004, the total authorized amount is $37.7 million. The total accumulated annual authorization since 1990 is $17.7 million of which $1.8 million is new annual authorization for the fiscal year ended June 30, 2004.

The equipment lease program functions as a revolving bond authorization fund. That is, for each dollar in bond principal that is repaid, a new dollar can be issued. The Finance Corporation has issued $104 million in equipment lease revenue bonds since 1991. As of June 30, 2004, $77.4 million has been repaid leaving $26.6 million in equipment lease revenue bonds outstanding and $11 million available for new issuance.

In June 2004, the Finance Corporation issued its twelfth Series of equipment lease revenue bonds Series 2004A in the amount of $9.5 million with interest rates ranging from 2.3% to 3.1%. The bonds mature from April 2005 through October 2009.

(b) City-wide Communication System

In 1993, the voters approved the issuance of up to $50 million in lease revenue bonds to finance the acquisition and construction of a citywide emergency radio communication system (800 mhz). The Finance Corporation issued two series in January 1998 and January 1999 for $31.2 million and $18.7 million, respectively. As of June 30, 2004, the amount authorized and unissued was $0.1 million. Further, in 1994, the voters approved the issuance of up to $60 million in lease revenue bonds to finance the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. The Finance Corporation issued two series in June 1997 and in June 1998 for $22.6 million and $23.3 million, respectively. As of June 30, 2004, the amount authorized and unissued was $14.1 million.

(c) Moscone Center West Expansion Project

In 1996, the voters approved the issuance of up to $157.5 million in lease revenue bonds for the purpose of financing a portion of the costs of acquiring, constructing, and improving a free-standing expansion to the City's Moscone Convention Center. On November 2, 2000, Series 2000-1, 2000-2 and 2000-3 totaling $157.5 million were issued. Each series of bonds may bear interest at a different rate and in a different interest rate mode from other series of bonds.

Refunding Settlement Obligation Bonds

In December 2003, the City issued $44.3 million of Refunding Settlement Obligation Bonds, Series 2003-R1 with interest rates ranging from 2.0% to 3.05% (maturing from March 2005 through March 2011) to refund a portion of the $49.5 million outstanding principal amount of the Settlement Obligation Bonds, Series 2001 (Business Tax Judgment). The Series 2001 Bonds were issued in August 2001 to refund certain obligations resulting from settlement of business tax litigation against the City.

The net proceeds of $44.4 million (including original issue premium of $0.5 million, and after payment of $0.4 million in underwriting fees, and other issuance costs) were used to refund a portion of the Series 2001 Bonds.

Although the refunding resulted in the recognition of an accounting loss of $0.6 million for the year ended June 30, 2004, the City in effect reduced its aggregate debt service payments by $2 million over the next seven years, and obtained an economic gain of $1.9 million.

Asphalt Plant Expansion Loan

In September 2003, the City entered into a loan agreement of $2.2 million through the State of California's Alpha Plan for installment purchases of two, one hundred fifty ton asphalt storage silos. The project will allow the City's asphalt plant to serve larger projects than currently possible, and will extend the life of other plant equipment. The loan has an interest rate of 4.3% and semi-annual loan repayments began in April 2004 through October 2013.

San Francisco County Transportation Authority Commercial Paper Notes

In March 2004, the San Francisco County Transportation Authority authorized the issuance of an initial tranche of up to $50 million of a programmed $200 million aggregate principal amount of Commercial Paper Notes (Limited Tax Bonds), Series A and B. The Commercial Paper Notes are issued to provide an interim source of financing for the Authority's New Transportation Expenditure Plan until a permanent

financing plan is finalized and implemented. Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates not to exceed 12% per annum. The maximum maturity of the notes is 270 days. The principal amount of the commercial paper notes plus interest thereon is backed as to credit and liquidity by an irrevocable Letter of Credit (LOC), issued by Landesbank Baden-Württemberg, New York Branch in the amount up to $217.8 million, with an expiration date of April 14, 2007. The commercial paper notes are secured by a first lien gross pledge of the Authority's ability to levy a half-cent sales tax collected by the California State Board of Equalization. The principal and interest on the commercial paper notes will be payable at each maturity.

As of June 30, 2004, $50 million in commercial paper notes was outstanding and maturing within 21 to 43 days after year-end with interest rates ranging from 1.02% to 1.05%.

Business-Type Activities Long-Term Liabilities

The following provides a brief description of the current year additions to the long-term debt of the business-type activities.

San Francisco International Airport

In February 2004, the San Francisco International Airport (SFO) issued Second Series Revenue Bond Issue 30 (issue 30) in the amount of $34.8 million with interest rates ranging from 3.6% to 5.25%. Proceeds from issue 30 were deposited into an irrevocable trust with an escrow agent to advance refund certain of the SFO's Second Series Revenue Bonds as follows (in thousands):

San Francisco International Airport Refunding Bonds
(in thousands)

	Amount Refunded	Interest Rate	Call Price
Second Series Revenue Bond Issuance:			
Issue 8	$ 545	5.10%	$ 101.000
Issue 9	1,700	5.0%	101.000
Issue 11	1,725	5.75%	101.000
Issue 15	9,670	4.0 - 4.1%	
Issue 16	1,270	5.0%	
Issue 18	2,925	5.0%	
Issue 21	290	5.0%	
Issue 23	4,625	4.0 - 4.5%	
Issue 24	950	5.0%	
Issue 26	2,475	5.0%	
Issue 28	8,190	3.0%	
	$ 34,365		

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2005 to May 1, 2007 and call dates of May 1, 2004 and May 1, 2005.

The net proceeds of $35.8 million (including original issue premium of $2.3 million, and after payment of $1.3 million in underwriting fees, insurance, surety premium, and other issuance costs) plus an additional $0.5 million of available debt service funds were used to purchase U.S. Treasury Securities – State and Local Government Series. These securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds identified above until redeemed on May 1, 2004 through May 1, 2007.

The refunded bonds are considered legally defeased where the debt is legally satisfied based on certain provisions in the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the Statement of Net Assets.

The issue 30 refunding was structured to achieve maximum cash flow savings in fiscal years 2005, 2006, and 2007. Beginning in fiscal year 2008 and through fiscal year 2018, the final bond maturity date, the SFO's net debt service payments will increase resulting in a net incremental debt service cost of $17.5 million over the next 15 years and an economic loss (the difference between the present values of the old and new debt service payments) of $2.7 million. The refunding also resulted in the recognition of a deferred accounting loss of $2.4 million.

In March 2004, SFO issued Second Series Variable Rate Revenue Refunding Bonds Issue 31 (issue 31) in the amount of $230.3 million. The issue 31 bonds were initially issued in an Auction Mode, subject to conversion by the Commission to another interest rate mode. The initial interest rate was established by the Airport Commission for the interest rate period commencing March 25, 2004 for each series of issue 31 bonds.

Each series of issue 31 bonds may bear a different auction rate and be subject to a different auction period. As of June 30, 2004, series issue 31A, 31B, 31C, 31D, and 31E were in 343 days, 35 days, 35 days, 35 days, and 7 days auction periods, respectively. For the period March 25, 2004 through June 30, 2004, the average interest rate on the issue 31 bonds was 1.065%.

Proceeds of the issue 31 bonds were deposited into an irrevocable trust with an escrow agent to advance refund certain of SFO's Second Series Revenue Bonds as follows (in thousands):

	Amount Refunded	Interest Rate	Call Price
Second Series Revenue Bond Issuance:			
Issue 5	$ 71,005	6.0% - 6.5%	$ 102.000
Issue 6	74,935	5.9% - 6.6%	102.000
Issue 7	21,675	5.4% - 6.15%	102.000
Issue 8	52,505	5.4% - 6.3%	101.000
	$ 220,120		

The net proceeds of $224 million (after payment of $6.3 million in underwriting fees, insurance, surety premium, and cost of issuance account) plus an additional $6.7 million of available debt service funds were used to purchase U.S. Treasury Securities - State and Local Government Series. These securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds identified above until called on May 1, 2004.

The refunded bonds are considered legally defeased where the debt is legally satisfied based on certain provisions in the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the Statement of Net Assets.

Although the advance refunding resulted in the recognition of a deferred accounting loss of $14 million for the year ended June 30, 2004, SFO in effect reduced its aggregate debt service payments by approximately $33.2 million (based on an assumed interest rate of 3.52% plus 10 basis points for AMT Bonds) over the next 23 years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of $39.8 million.

Water Department

In November 1997, the voters approved Propositions A and B, authorizing up to $304 million in Water Revenue Bonds to fund capital improvements for the Water Enterprise. In May and June 1999, the San Francisco Public Utilities Commission (the Commission) and the Board of Supervisors, respectively, approved a commercial paper program to provide short-term financing for capital improvement projects funded under the $304 million Water Revenue Bond Program. In October 2000, the Commission and the Board of Supervisors approved the expansion of the commercial paper program to up to $250 million.

In March and May 2003, the Commission and the Board of Supervisors, respectively, approved the reestablishment of the commercial paper program in an amount not to exceed $250 million. As of June 30, 2004, the program had $25 million in commercial paper notes outstanding.

On November 5, 2002, the San Francisco voters passed Proposition A, which provides for the issuance of revenue bonds and/or other forms of revenue financing by the Commission in a principal amount not to exceed $1.6 billion to finance the acquisition and construction of improvements to the City's Water System. As of June 30, 2004, no bonds had been issued pursuant to this authorization.

Laguna Honda Hospital

The Department of Public Health, for the Laguna Honda Hospital, entered into a capital lease agreement for laundry equipment, at a current rate of 3.465%, maturing in January 2009. Also the Department of Public Health, for the facilities, entered into several capital leases for various pieces of equipment at different interest rates and maturity period up to five years. The total new capital lease obligations for the hospital as of June 30, 2004 was $2.1 million.

Component Unit Debt - Redevelopment Agency

The current year debt activities of the Redevelopment Agency are discussed in note 12.

(9) EMPLOYEE BENEFIT PROGRAMS

(a) Retirement Plans

The City maintains a single-employer, defined benefit pension plan (the Plan) which covers substantially all of its employees, and certain classified and certified employees of the San Francisco Community College District and Unified School District. The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). Some City employees participate in the California Public Employees Retirement System (PERS), an agent multiple-employer, public employee pension plan which covers certain employees in public safety functions, the Port, SFO and the Redevelopment Agency.

Employees' Retirement System

Plan Description - Substantially all full-time employees of the City participate in the Plan. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The retirement related payroll for employees covered by the Retirement System for the year ended June 30, 2004 was $2.1 billion. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County

Employees' Retirement System, 30 Van Ness, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Membership

Membership of the Retirement System at July 1, 2003, the date of the latest actuarial valuation is:

	Police	Fire	Others	Total
Retirees and beneficiaries currently receiving benefits....	2,006	1,804	14,680	18,490
Active members:				
Vested..............................	1,853	1,333	20,095	23,281
Nonvested..........................	384	435	8,021	8,840
Subtotal.........................	2,237	1,768	28,116	32,121
Total....................................	4,243	3,572	42,796	50,611

Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Funding Policy - Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory. Employee contribution rates for fiscal year 2003-04 varied from 7.00% to 8.00% as a percentage of gross salary. The City is required to contribute at an actuarially determined rate. Based on the actuarial report, there were no required employer contributions for fiscal year 2003-04 because the Plan is funded at 109% of liability. In collective bargaining during the year ended June 30, 1994, the City and County agreed to pay a portion of the employee contributions on behalf of employees. From 1994 through June 2003, the City and County portion of these contributions has been negotiated through the various unions on a member group basis, and did not exceed 8.0% of base salary. For fiscal year ended June 30, 2004, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis.

Employer contributions and member contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions.

Annual Pension Cost - The annual required contribution for the current year was determined as part of an actuarial valuation performed as of July 1, 2003. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8.00%; (2) inflation element in wage increase of 3.50%; and (3) salary merit increases of 4.50%. Unfunded liabilities are amortized using the level percentage of payroll method. Changes in actuarial gains and loss assumptions and purchasable services are amortized as a level percentage of pay over a closed 15 year period. Plan amendments are amortized over 20 years.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2002	$ -	N/A	$ -
6/30/2003	$ -	N/A	$ -
6/30/2004	$ -	N/A	$ -

California Public Employees' Retirement System

Various City public safety, Port, and all Redevelopment Agency employees are eligible to participate in PERS. Disclosures for the Redevelopment Agency are included in the separately issued financial statements.

Plan Description - The City and County of San Francisco contributes to PERS, an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Miscellaneous Plan

Funding Policy - Miscellaneous plan – Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the miscellaneous plan, the fiscal year 2003-04 contribution rate is 0% of annual covered payroll because the City is funded at 148.8%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Miscellaneous plan - cost for PERS for fiscal year 2003-04 was equal to the City's required and actual contributions which was determined as part of the June 30, 2001 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2001 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 3.75% to 14.20% projected annual salary increases that vary by age, service, and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.50%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized, as a level percentage of pay, over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2002	$ -	N/A	$ -
6/30/2003	$ -	N/A	$ -
6/30/2004	$ -	N/A	$ -

Safety Plan

Funding Policy – Safety plan - Participants are required to contribute 9% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. For the safety plan, the fiscal year contribution rate is 6.431% because the City is funded at 124.1%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Safety Plan - cost for PERS for fiscal year 2003-04 was equal to the City's required and actual contributions which was determined as part of the June 30, 2001 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2001 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 4.27% to 11.59% projected annual salary increases that vary by age, service and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized over as a level percentage of pay over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2002	$ -	N/A	$ -
6/30/2003	$ -	N/A	$ -
6/30/2004	$ 5,606	100%	$ -

(b) Deferred Compensation Plan

The City offers its employees a deferred compensation plan in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

The City has no administrative involvement and does not perform the investing function. The City has no fiduciary accountability for the plan and, accordingly, the plan assets and related liabilities to plan participants are not included in the basic financial statements.

(c) Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District and Unified School District, amounted to approximately $345.4 million in fiscal year 2004. The employers' contribution is mandated and determined by Charter provision based on similar contributions made by the ten most populous counties in California. Included in this amount is $96 million to provide post-retirement health care benefits for 19,216 retired employees. The City's liability for both current employee and post-retirement health care benefits is limited to its annual contribution. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health

Service System issues a publicly available financial report that includes financial statements and required supplementary information for the health care benefits. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, 2nd Floor, San Francisco, CA 94103 or by calling (415) 554-1700.

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (the Authority) was established in 1989 by the voters of the City and County of San Francisco pursuant to State Code Section 131.000. The purpose of the Authority is to impose the voter-approved transactions and use tax of one-half of one percent to fund essential traffic and transportation projects, as set forth in the San Francisco County Transportation Expenditure Plan, for a period not to exceed 20 years. The principal focus of the Authority's Expenditure Plan is to define a program of prioritized projects to ensure that funding is allocated across major transportation categories. The City accounts for these activities in the other governmental funds.

In June 1992, the Authority was designated by the Board of Supervisors as the overall program manager for the Local Guarantee share of transportation funds available through the "Transportation Fund for Clean Air" Program (AB 434) which is administered by the Bay Area Air Quality Management District. The source of funds is a $4.00 surcharge on the vehicle registration fee.

The Authority serves as the Congestion Management Agency under state laws, and in that capacity prioritizes state and federal transportation funds for San Francisco. The funding is administered by the Metropolitan Transportation Commission in accordance with the Federal Surface Transportation Program for congestion management activities.

In April 1998, the Authority signed a memorandum of understanding with the State of California Department of Transportation (Caltrans) to serve as the lead agency for the environmental impact research and study and the preliminary design for the Doyle Drive Replacement Project for which Caltrans was awarded $6 million in federal grant funds.

Following is a summary of the Authority's financial position and changes in financial position as of and for the year ended June 30, 2004 (in thousands):

ASSETS	
Deposits and investments	$ 220,519
Receivables	15,431
Total assets	$ 235,950
LIABILITIES AND FUND BALANCE	
Due to other funds	$ 47,144
Other liabilities	53,340
Total liabilities	100,484
Fund balance:	
Reserved for debt service	318
Reserved for encumbrances	4,517
Reserved for appropriation carryforward	126,596
Unreserved	4,035
Total fund balance	135,466
Total liabilities and fund balance	$ 235,950

OPERATIONS	
Revenues:	
Sales tax	$ 61,925
Interest and investment income	1,002
Intergovernmental	58,663
Other	3,038
	124,628
Expenditures and other financing uses:	
Public works, transportation, and commerce	21,374
Transfer to other funds	116,875
	138,249
Deficiency of revenues under expenditures and other financing uses	(13,621)
Fund balance at the beginning of year	149,087
Fund balance at end of year	$ 135,466

(11) DETAILED INFORMATION FOR ENTERPRISE FUNDS

(a) San Francisco International Airport

San Francisco International Airport (SFO), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five member Commission is responsible for the operation and management of the SFO. SFO is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and the San Francisco Bay. According to final data for calendar year 2003 from the Airports Council International (the ACI), SFO is one of the largest airports in the United States both in terms of passengers (14th) and air cargo (13th). SFO is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

The San Francisco Bay Area Rapid Transit District (BART) extension to SFO opened for full operation on June 22, 2003. The extension creates a convenient connection between SFO and the greater San Francisco Bay Area that is served by BART. An intermodal station in the City of Millbrae provides a direct link to Caltrain offering additional transit options and connection to the southern parts of the Bay Area. Access from the BART station throughout SFO is enhanced by the AirTrain system, a shuttle train that connects airport terminals. The AirTrain system, which opened for full operation on March 24, 2003, provides transit service over a "terminal loop" to serve the terminal complex and over a "north corridor loop" to serve the rental car facility and other locations situated north of the terminal complex.

SFO has developed a revised Capital Plan to better fit the changes in the aviation industry. The Capital Plan was completed in the Fall of 2003 and included projects related to improvements to the airfield, groundside activities and customer service functions, environmental mitigation, utilities infrastructure upgrades, seismic retrofit of certain facilities, health, safety and security enhancements, and cost savings and revenue generating enhancements.

SFO currently has outstanding $4.2 billion in aggregate principal amount of Second Series Revenue Bonds. SFO has issued $1.5 billion in Bonds to refund previously outstanding Bonds and Commercial Paper Notes of the Commission, $432.9 million in Bonds for noise mitigation and other capital projects, $60 million in Bonds to finance a portion of the construction costs of the BART extension to SFO.

On July 27, 2001, the Federal Aviation Administration (FAA) approved the SFO's first Passenger Facility Charge application (PFC#1) to impose and use a $4.50 Passenger Facility Charge (PFC) per enplaning passenger from October 1, 2001 through June 1, 2003, to pay for approximately $113 million in PFC eligible project development activities and studies associated with the potential runway reconfiguration. On March 21, 2002, the FAA approved the SFO's PFC Application Number 2 (PFC#2) to impose and use a $4.50 PFC per enplaning passenger from June 1, 2003 through April 1, 2008, to pay for approximately $224 million in the principal and interest on bonds issued for certain eligible costs relating to the new International Terminal Complex.

On March 25, 2003, as a result of decrease in enplanement, SFO notified PFC collecting carriers of the intent to extend the PFC#1 collection, thereby revising the current PFC#1 charge expiration date from June 1, 2003 to January 1, 2004. With the PFC#1 collection period extension in place, the PFC#2 effective date changes from June 1, 2003 to January 1, 2004. Automatically, the PFC#2 expiration date changes from April 1, 2008 to November 1, 2008. During the extended collection period, the PFC is maintained at $4.50.

For the year ended June 30, 2004, SFO reported approximately $57.5 million of PFC revenue, which is included in other non-operating revenues in the accompanying basic financial statements. SFO designated $48.1 million of PFC revenues as "Revenues" under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2004. In addition, during the year ended June 30, 2004, SFO did not designate any PFC revenues as "Revenues" for the purpose of paying debt service in fiscal year 2005, as required in the 1991 Master Bond Resolution.

Due to the SFO's noise mitigation efforts, significant progress has been made in reducing the impact of aircraft noise on the communities surrounding the Airport through the implementation of (1) noise abatement flight procedures, (2) an aircraft noise insulation program, (3) community outreach through the Airport Community Roundtable, and (4) requests that certain surrounding communities adopt ordinances to protect new purchasers of homes within their community.

Pursuant to an agreement with certain airlines, SFO makes an annual payment to the City's General Fund equal to 15% of concession revenue, but not less than $5 million per fiscal year. The amount transferred to the General Fund during the year ended June 30, 2004 was $18.2 million.

Purchase commitments for construction, material and services as of June 30, 2004 are as follows (in thousands):

Construction	$ 28,336
Operating	3,854
Total	$ 32,190

SFO has a Memorandum of Understanding with various surrounding communities to insulate residential and nonresidential structures such as schools, churches and hospitals. The total estimated funding for this program is approximately $154 million funded by bond proceeds, by federal grant reimbursements to the local communities, and by operating and other internally generated funds. As of June 30, 2004, approximately $121 million has been disbursed under this program.

SFO maintains a capital plan which included in particular, the Near Term Master Plan (NTMP) program. All projects included in the NTMP have been completed as of June 30, 2003. The total master plan funding is $2.85 billion. In addition to the NTMP projects, SFO's capital program also includes infrastructure projects. The current budget for capital projects is $393 million. SFO spent $97 million for these projects as of June 30, 2004.

In May 2002, SFO obtained a standby letter of credit with a maximum stated principal amount of $200 million. The subordinate Lien Resolution authorizes a maximum authorized principal amount of notes of $400 million. There were no commercial borrowings during the year ended June 30, 2004.

SFO leases facilities to the airlines pursuant to the Lease and Use Agreements and to other businesses to operate concessions at SFO. During the year ended June 30, 2004, revenues realized from the following SFO tenants exceeded five percent of SFO's total operating revenues:

United Airlines	25.5%
AMPCO Parking Systems	8.9%
American Airlines	5.4%

(b) Port of San Francisco

A five-member Port Commission is responsible for the operation, development, and maintenance activities of the Port of San Francisco (Port). Prior to 1969, the Port was owned by the State of California. At that time the Port was transferred in trust to the City under the terms and conditions of legislation as ratified by the electorate of the City. The State retains the right to amend, modify or revoke the transfer of lands in trust provided that it assumes all lawful obligations related to such lands.

In 1996, the Department of Parking and Traffic (DPT) entered into an Annual Payment Agreement with the Port to resolve a dispute concerning the City's collection of parking fine revenues from Port property. Among other things, DPT agreed to pay the Port a guaranteed annual payment of $1.2 million for twenty years commencing on July 1, 1997, for parking fine revenues collected from Port property. Thereafter, amounts remitted to the Port are based on actual ticket collections, net of administrative costs.

In connection with a mixed-use cruise terminal development project at Piers 30-32, and as approved by state legislation in 2001 (Assembly Bill No. 1389), a portion of Seawall Lot No. 330 was sold to a developer in 2004. The land was sold for $9.3 million, slightly above its appraised fair value. Certain proceeds from the land sale ($9 million) are restricted for the construction of a public plaza area called Brannan Street Wharf. The remainder of the proceeds from the land sale, together with certain residual receipts from the future sale of residential condominium units built on the land sold, is restricted for the construction of the cruise terminal.

The Port is presently planning various development projects that involve a commitment to expend significant funds. Purchase commitments at June 30, 2004 were $5.3 million for capital projects and $1.5 million for general operating costs. Under an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to $30 million over a 20 year period for pier removal, parks and plazas and other public access improvements. As of June 30, 2004, $14.3 million has been appropriated and $1.6 million has been expended for projects under the agreement.

(c) Water Department

The Water Department was established in 1930. The Water Department, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the collection, transmission and distribution of water to the City and certain suburban areas. The Water Department delivers water, approximately 95,265 million gallons annually, to a total population of approximately 2.4 million people who reside primarily in four Bay Area counties (San Francisco, San Mateo, Santa Clara and Alameda).

The Commission, established in 1932, provides the operational oversight for the Water Department, Hetch Hetchy, and the Clean Water Program. The Commission consists of five members appointed by the Mayor who are responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.

The Water Department purchases water from Hetch Hetchy. This amount, totaling approximately $19.0 million, is included in the charges for services provided by other departments in the accompanying financial statements.

During fiscal year 2004, water sales to suburban resale customers were $82.3 million. As of June 30, 2004, the Water Department owed suburban resale customers approximately $19.8 million under the Suburban Water Rate Agreement.

As of June 30, 2004, the Water Department had outstanding commitments with third parties of $60.1 million for various capital projects and for materials and supplies.

In July 1999, the California Regional Water Quality Control Board (CRWQCB) issued a directive instructing the Water Department to develop a remedial action plan (Plan) that addresses environmental contamination at certain real property owned by the Water Department. In response to the directive, the Commission developed a remedial action plan and in August 2001 received the final directive from the CRWQCB to execute the plan by middle of 2004. The Commission appropriated funding for pre-work and the award of Phase I of the plan during fiscal year 2002. The cost of cleanup associated with the Plan was estimated to be $22.7 million and was accrued in fiscal year 2001. At June 30, 2004, the outstanding estimated liability is $15.8 million.

(d) Hetch Hetchy Water and Power

Hetch Hetchy was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park to the City. Hetch Hetchy is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource. Approximately one-third of the electricity is used by the City's municipal customers (e.g., the San Francisco Municipal Railway, the Recreation and Parks Department, the Port of San Francisco, San Francisco County hospitals, street lighting, Moscone Center, and the water and sewer utilities). The balance of the power generated is sold to other publicly owned utilities, such as the Modesto and Turlock Irrigation Districts (the Districts).

Hetch Hetchy consists of a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines. This system carries water and power more than 165 miles from the Sierra Nevada Mountains to customers in the City and portions of the surrounding San Francisco Bay Area.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by state and federal power matters before the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at both CPUC and FERC forums and continues to monitor regulatory proceedings.

Charges for services for the year ended June 30, 2004 include $63.1 million in sales of power by Hetch Hetchy to other City Departments. Income from Hetch Hetchy is available for certain operations of the City.

As of June 30, 2004, Hetch Hetchy had outstanding commitments with third parties of $19.6 million for various capital projects and other purchase agreements for materials and services.

Hetch Hetchy facilitates all electric and gas service connections between Pacific Gas and Electric Company (PG&E) and City Departments. In this capacity, Hetch Hetchy, as a pass-through agent on behalf of the City departments, coordinates the payment for the service connections that are performed by PG&E. As of June 30, 2004, there were no outstanding amounts from City departments related to this work.

Hetch Hetchy receives title to the underlying assets of certain completed projects on behalf of the City and assumes responsibility for their maintenance, repair and replacement following their initial year of operation.

The Commission has contracted with PG&E to provide transmission capacity on PG&E's system where needed to deliver Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides backup power and other support services to Hetch Hetchy. The PG&E agreement allows PG&E to review past billings paid by Hetch Hetchy and to retroactively adjust these payments to actual backup power, transmission, and other charges as finally determined by PG&E. During fiscal year 2004, Hetch Hetchy purchased $30.5 million of transmission services, backup power, and other support services from PG&E under the terms of the agreement.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Districts in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments of $3.5 million from the City. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of $1.4 million is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52% and the Districts are responsible for 48% of the costs.

In April 1988, Hetch Hetchy entered into a long-term power sales agreement (the Agreement) with the Districts. The Agreement expires in 2015 and requires that Hetch Hetchy provide, as generated, an amount equivalent to the difference between 260 megawatts and the amount required to meet the City's demand. In June 2003, Hetch Hetchy amended the terms of the Agreement with the Modesto Irrigation District (MID). Under the terms of the amended and restated long-term power sales agreement, which became effective on January 1, 2003, the expiration date was shortened to 2007, the existing pricing structure was modified, and Hetch Hetchy's firm obligation to provide power to the MID was relaxed. For fiscal year 2004, power sales to the Districts totaled 828,918 MWhrs or $24.3 million.

On May 9, 2001, Hetch Hetchy entered into a fixed price, forward contract (the Contract) to purchase 2.19 million MWhrs of electric energy from a third party energy provider with scheduled future delivery over a five-year period beginning July 1, 2001. Effective March 9, 2003, Hetch Hetchy executed an amended and restated transaction confirmation with the third party energy provider to amend and retroactively restate the terms of the original agreement entered into on May 9, 2001 in its entirety, to settle any pending disputes brought forth by Hetch Hetchy. Under this amended take or pay contract, Hetch Hetchy is obligated to pay for a minimum amount of electricity even if the electricity is not required for operations. Commitments related to this contract total $86.1 million from July 1, 2003 through June 30, 2006. Expenses under this contract totaled $29 million in fiscal year 2004.

In December 2002, the City entered into an agreement (the Power Purchase Agreement) with the California Department of Water Resources in anticipation of the settlement and implementation agreements. Under the terms of the Power Purchase Agreement, the California Department of Water Resources has agreed to purchase power and rated capacity from the City at rates that will essentially provide for the full recovery of the City's costs incurred in the construction of a power generating facility (The Facility) over a ten year period from the date in which the California Department of Water Resources accepts the City's certification that the Facility meets all requirements of commercial operation as set forth in the Power Purchase Agreement (Commercial Operation Date).

The City may terminate the Power Purchase Agreement at any time from and after the fifth anniversary of the Commercial Operation Date upon providing a one-year notice to the California Department of Water Resources, and the California Department of Water Resources may terminate the Power Purchase Agreement at such time that there is no longer a debt service component within the capacity payment.

On January 21, 2003, the City's Board of Supervisors authorized the settlement of a lawsuit filed in January 2001 by the City, on behalf of the people of the State of California (the State), against certain energy companies. Under the terms of the settlement, the City received or is to receive (i) four gas turbine generator sets valued at approximately $33 million for use within the City, (ii) future funding from a State administered fund (the Fund) to assist with the costs of sitting and developing electric generating equipment in the City, and (iii) payment to the City of $0.5 million for attorney's fees and other expenses of litigation.

Effective January 23, 2003, the City entered into an implementation agreement with the Attorney General of the State of California (the Attorney General), the California Consumer Power and Conservation Financing Authority (the Financing Authority), and the California Department of Water Resources, outlining the terms of execution of the settlement agreement.

In conjunction with the execution of the settlement agreement, the Attorney General has received the first $5.3 million from the defendants, and deposited that amount into the Fund. The City has eligible costs incurred in the development of the facility of about $2.5 million. As of June 30, 2004, the City has requested and received a total of $1.9 million for reimbursement from the Fund. Under the terms of the Agreement, the City only has claim to the proceeds held by the Fund to the extent that eligible costs are incurred in the development of the Facility. As such, the corresponding revenue will be recognized as eligible costs. Hetch Hetchy has recognized $1.9 million of revenue from the Fund as of June 30, 2004.

(e) Municipal Transportation Agency

The MTA is responsible for overseeing the City's public transportation operations, including those of MUNI, SFMRIC, and the DPT which includes the Parking Authority and its five parking garages operated by separate nonprofit corporations organized by the City. Created in November 1999, with the passage of Proposition E, by the voters, the MTA replaced the San Francisco Public Transportation Commission as the oversight agency for the operations of MUNI and SFMRIC, and effective July 1, 2002, the MTA also assumed responsibility for overseeing the operations of the DPT.

The tables below reflect the financial information of MUNI, the DPT (excluding the parking garages) and the parking garages that are reported within the MTA (in thousands), net of $0.6 million interagency accounts payables and receivables and interfund transfers of $1 million:

	MUNI	DPT	Parking Garages	Total
Assets				
Current Assets	$ 158,873	$ 21,433	$ 4,470	$ 184,776
Noncurrent Assets	1,796,824	49,429	117,167	1,963,420
Total Assets	1,955,697	70,862	121,637	2,148,196
Liabilities				
Current liabilities	102,724	16,759	20,880	140,363
Liabilities payable from restricted assets	941	-	-	941
Noncurrent liabilities	151,480	65,853	36,110	253,443
Total liabilities	255,145	82,612	56,990	394,747
Net assets				
Invested in capital assets, net of related debt	1,745,231	(6,892)	57,725	1,796,064
Restricted net assets	46,484	3,845	1,826	52,155
Unrestricted net assets (deficit)	(91,163)	(8,703)	5,096	(94,770)
Total net assets (deficit)	$ 1,700,552	$ (11,750)	$ 64,647	$ 1,753,449

	MUNI	DPT	Parking Garages	Total
Operating Revenues	$ 127,317	$ 23,054	$ 36,019	$ 186,390
Operating Expenses	553,121	69,773	32,863	655,757
Net Operating Income (Loss)	(425,804)	(46,719)	3,156	(469,367)
Nonoperating Income (Loss)	221,113	16,201	(1,889)	235,425
Capital Contributions	64,669	-	-	64,669
Transfers In	218,943	34,446	-	253,389
Transfers Out	-	(346)	-	(346)
Change in Net Assets	78,921	3,582	1,267	83,770
Net Assets at Beginning of Year	1,620,639	(14,340)	63,380	1,669,679
Net Assets (Deficit) at End of Year	$ 1,699,560	$ (10,758)	$ 64,647	$ 1,753,449

The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and the DPT determined by the City's budgetary accounting procedures, subject to the appropriation process. The amount of General Fund subsidy to the MTA was $133.7 million ($99.3 million for MUNI and $34.4 million for DPT).

Municipal Railway

MUNI receives capital grants from various federal, state, and local agencies to finance transit related property and equipment purchases. As of June 30, 2004, MUNI had approved capital grants with unused balances amounting to $232 million. Capital grants receivable as of June 30, 2004 totaled $55 million.

MUNI also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds and sales tax allocations. As of June 30, 2004, MUNI had various operating grants receivable of $27.9 million.

These capital grants and operating assistance include funds from the San Francisco Transportation Authority (SFCTA). During the year ended June 30, 2004, the SFCTA approved $62.5 million in new capital grants and $15.8 million in new operating grants for MUNI. During the same period, MUNI received total payments of $116.4 million for capital grants and $12.8 million in operating grants from the Authority. As of June 30, 2004, MUNI had $35.8 million due from the SFCTA for capital grants and $5.09 million due from the SFCTA for operating grants reported in due from other funds.

The State Public Utilities Code requires that fare revenues must equal or exceed 33% of operating costs in order to qualify for an allocation of certain sales tax revenues available for public transit. Transit operators may add local support to fare revenues in order to calculate the fare recovery ratio. The City provides significant local support to MUNI from parking revenues and the General Fund.

MUNI has outstanding contract commitments of approximately $77 million with third parties for various capital projects. Grant funding is available for a majority of this amount. MUNI also has outstanding commitments of approximately $8 million for non-capital expenditures. Various local funding sources are used to finance these expenditures. MUNI is committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. SMFRIC's Board of Directors has authorized SMFRIC to extend financial guarantees to MUNI for certain projects totaling $2.5 million.

In March 2001, MUNI and the Port entered in to a Memorandum of Understanding (MOU) under which MUNI may use the Metro East site in perpetuity for rail vehicle maintenance, operations and other operational needs at a cost of $25.7 million. MUNI received a capital contribution from the Authority for this. As part of this MOU, MUNI paid the Port an additional $4 million in fiscal year 2002 to construct the Illinois Street Bridge over Islais Creek that will mitigate traffic in the area and improve coordination with MUNI's Metro East and Third Street Light Rail Project. MUNI has agreed to reasonably extend this deadline up to March 2005 provided the Port has procured the design and construction contract and has issued direction to proceed with Phase II to build the Illinois Street Bridge. The construction is expected to be completed in early 2006.

Leveraged Lease-Leaseback with BREDA Vehicles

Tranche 1

The Municipal Transportation Agency board of directors authorized the Director of Transportation to solicit proposals regarding a leveraged lease-leaseback transaction involving up to 150 BREDA light rail vehicles. The transaction would not involve financing or procurement of any new vehicles. Rather, MUNI's intention was to obtain an upfront economic benefit in return for entering into a lease-leaseback transaction involving the Breda light rail vehicles, without impairing the day-to-day operations of the transit system.

In April 2002, MUNI entered into the leveraged lease-leaseback transaction over 118 Breda light rail vehicles (the Tranche 1 Equipment). The transaction was structured as a head lease of the Tranche 1 Equipment to separate special purpose trusts and a sublease of the Tranche 1 Equipment back from such trusts. The sublease provides MUNI with an option to purchase the Tranche 1 Equipment in

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approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Tranche 1 Equipment and is obligated to insure and maintain the Tranche 1 Equipment throughout the life of the sublease.

MUNI received an aggregate of $388.2 million from the equity investors in full prepayment of the head lease. MUNI deposited $352.7 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote. Therefore, the trust assets and the sublease obligations are not recorded on the financial statements of MUNI as of June 30, 2004.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2002 of $35.5 million for the difference between the amount received of $388.2 million and the amount paid to the escrows of $352.7 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized in fiscal year 2004 amounted to $1.3 million.

As of June 30, 2004, the outstanding payments to be made on the sublease through 2027 are $308.2 million and the payments to be made on the purchase option of the Tranche 1 Equipment would be $643.1 million, if exercised. All of these payments are to be funded from the amounts in escrow. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

Tranche 2

In September 2003, after obtaining final approval from the Municipal Transportation Agency board of directors and the City's board of supervisors, MUNI entered into a second leveraged lease-lease back transaction over 21 BREDA light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to one separate special purpose trust (formed on behalf of a certain equity investor) and a sublease of the Equipment back from such trust. The sublease provides MUNI with an option to purchase the Equipment in approximately 26 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Equipment and is obligated to insure and maintain the Equipment throughout the life of the sublease.

MUNI received an aggregate of $72.6 million from the equity investors in full prepayment of the head lease. MUNI deposited approximately $67.5 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2004 of $4.4 million for the difference between the amount received of $72.6 million and the amount paid to the escrows of $67.5 million (minus $0.7 for certain transaction expenses). The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized in fiscal year 2004 amounted to $0.1 million.

As of June 30, 2004, the outstanding payments to be made on the sublease through 2029 are $59.7 million and the payments to be made on the purchase option of the Equipment would be $198.5 million, if exercised. All of these payments are to be funded from the amounts in escrow. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

The data below reflects the operations of the five parking garages operated by separate nonprofit corporations organized by the City, which are under the Parking Authority. Information about these nonprofit corporations for the year ended June 30, 2004 follows (in thousands), including $0.6 million accounts payable to MUNI:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis-O'Farrell Parking	Portsmouth Plaza Parking	Total
Operating revenues	$ 11,083	$ 14,772	$ 2,407	$ 4,509	$ 3,248	$ 36,019
Depreciation	727	1,077	-	-	127	1,931
Operating income	791	1,117	270	879	99	3,156
Interest and other non-operating revenues (expenses)	(673)	(1,013)	-	(214)	11	(1,889)
Change in net assets	118	104	270	665	110	1,267
Capital assets, increases	104	57	56	26	189	432
Capital assets, decreases	-	-	(32)	-	-	(32)
Net working capial (deficit)	(6,843)	(9,618)	239	(1,138)	(9,824)	(27,184)
Total assets	29,317	61,947	7,594	19,657	3,122	121,637
Total liabilities	19,449	30,341	250	6,487	463	56,990
Net assets	9,868	31,606	7,344	13,170	2,659	64,647
Total debt outstanding	$ 12,343	$ 19,399	$ -	$ 5,473	$ -	$ 37,215

(f) Laguna Honda Hospital

The Laguna Honda Hospital (LHH) is a skilled nursing facility which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis, however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Accordingly, depreciation and certain non-current accrued expenses are not funded, resulting in continuing deficits on a budget basis. In those circumstances, the City allows the enterprise to show a deficit on a budget basis. For the fiscal year ended June 30, 2004, the subsidy for LHH was $32 million.

	(in thousands)
Changes in net assets of LHH on a GAAP basis	$ (10,473)
Transfer to General Fund*	7,562
Net loss on specific/donor restricted funds	(79)
Operating subsidy from City General Fund	(31,853)
Net loss on LHH on a GAAP basis before operating subsidy	(34,843)
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	(2,455)
Change in encumbrances and appropriation carryforward	3,181
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation and other expenses	2,264
Net loss of LHH requiring General Fund subsidy on a budget basis	$ (31,853)

* During the fiscal year ended June 30, 2004, LHH transferred approximately ($7.6) million of the tobacco settlement funds. In addition, LHH received approximately $0.6 million in income from investments, which is included in the net loss on specific/donor restricted funds calculation. As a result, LHH's net assets on a GAAP basis do not show a deficit.

LHH has agreements with third-party payors that provide for reimbursement to LHH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the hospital's established rate for services and amounts reimbursed by third-party payors. Medicare and Medi-Cal are the major third-party payors with whom such agreements have been established. During the fiscal year ended June 30, 2004, Medicare and Medi-Cal charges for services amounted to approximately $4 million and $107 million, respectively. As of June 30, 2004, LHH had net patient receivables from Medicare of $0.3 million and net patient receivables from Medi-Cal of $14 million.

During fiscal year ended June 30, 2004, LHH received approximately $16 million in payments as a result of matching federal funds to local funds which provided a Medi-Cal supplemental in the form of quarterly payments effective August 1, 2001.

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City to finance the acquisition, improvement, construction and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital. Proposition A stipulates that $100 million of tobacco settlement funds received by the City, excluding $1 million set aside each year for smoking education and prevention programs, may be used to pay for construction of a replacement facility for LHH. As of June 30, 2004, no bonds have been sold. LHH is actively involved in the planning and design phase for new facilities to replace Laguna Honda Hospital.

The California Hospital Facilities Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that LHH could maintain uninterrupted operations following major earthquakes. By January 1, 2008, all general acute care buildings must be life safe. By January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. In December 2001, LHH finalized and submitted a plan to the State of California indicating that the Laguna

Honda Hospital Replacement Project will be fully operational by 2013 and thereby in full compliance with the 2030 requirements. A five-year extension for the January 2008 deadline was requested and granted postponing the deadline to 2013.

LLH received a report initiated by the California Integrated Waste Management Board declaring an old dumpsite on Hospital property a "hazardous waste site" under California hazardous waste statute. The San Francisco Department of Public Health, as the local enforcement agency, has been designated to oversee and certify the future abatement of the dumpsite. LHH management has subsequently received a number of estimates to remedy this situation, ranging from $0.7 million to $2.5 million. The hospital and the S.F. Department of Public Health are evaluating the bids submitted. The State has mentioned that this particular hazardous waste site is classified as a low priority considering the other more hazardous waste sites within the State. The specific site has been contained and secured for the safety of the general public.

As of June 30, 2004, LHH has entered into various purchase contracts totaling approximately $9.9 million that are related to future construction for the Hospital Replacement Project.

(g) General Hospital Medical Center

The San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Accordingly, depreciation and certain non-current accrued expenses are not funded, resulting in continuing deficits on a budget basis. In those circumstances, the City allows the enterprise to show a deficit on a budget basis. For the year ended June 30, 2004, the subsidy for SFGH was $62 million.

	(in thousands)
Income before transfers of SFGH on a GAAP basis	$ 1,847
Reimbursement to City General Fund for SB 855 matching program	(69,384)
Transfers from City General Fund to support SFGH on:	
Other Program Support	1,329
Interest expense on the over draft funds with the City Treasury	464
Transfers from SFGH to City facility projects	1,159
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	(2,865)
Change in encumbrances and appropriation carryforwards	(1,252)
Other expenses	(88)
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation expense	6,634
Net loss of SFGH requiring General Fund subsidy on a Budget basis	$ (62,156)

SFGH has agreements with third-party payors that provide for reimbursement to SFGH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between SFGH's established rates and amounts reimbursed by third-party payors. Major third-party payors with whom such agreements have been established are Medicare, Medi-Cal, the State of California through Senate Bills 855 and 1255 and the Short-Doyle mental health program, the federal Medi-Cal Medical Education Program and Administrative Claiming System, and a managed care agreement signed with a health maintenance organization (HMO).

During the year ended June 30, 2004, Medicare and Medi-Cal revenue accounted for $53 million and $52 million of net patient service revenue respectively. As of June 30, 2004, SFGH had net patient receivables from Medicare of $7.8 million and net patient receivables from Medi-Cal of $15.7 million.

State of California Senate Bill 855 (SB-855) was passed by the state legislature in July 1991 to provide additional funding to hospitals which provide a significant portion of their services to Medi-Cal recipients. In order to receive additional funds, the City must transfer funds to the State Medi-Cal program so that the funds may be matched by federal funds. Gross patient revenue recorded by SFGH for SB-855 totaled $100.4 million for the year ended June 30, 2004. This revenue was offset by a reduction in the General Fund operating subsidy of $69.4 million for net SB 855 revenues of $31 million for the year ended June 30, 2004.

In addition, SFGH receives funding from the State of California under Senate Bill 1255 (SB-1255) which establishes a funding pool through public and private sector contributions with matching federal participation. For the year ended June 30, 2004, SFGH recognized gross patient revenue in the amount of $63.5 million offset by a reduction in the contribution provided by the City of $35 million for net SB 1255 revenues of $28.5 million.

Under the Medi-Cal Medical Education program, SFGH is reimbursed for medical education costs incurred for services rendered to Medi-Cal beneficiaries. For the year ended June 30, 2004, SFGH recognized net patient service revenue in the amount of $1.8 million pertaining to this program.

As of June 30, 2004, SFGH had Medi-Cal supplemental reimbursement receivables for SB-855, SB-1255, and other federal and state settlement payments of approximately $33.8 million.

The State of California provides support to SFGH through a realignment of funding provided from vehicle license fees and sales tax allocated to California's counties. SFGH recognized $61.1 million as other operating revenue for the year ended June 30, 2004, from realignment funding.

In addition, SFGH was reimbursed by the State of California, under the Short-Doyle program, for mental health services provided to qualifying residents based on an established rate per unit of service not to exceed an annual negotiated contract amount. During the year ended June 30, 2004, reimbursement under the Short-Doyle program amounted to approximately $5 million and is included in transfers in.

State of California Proposition 99, the Tobacco Tax Initiative, allocates funds to counties for health care services to indigent persons and others who are unable to pay for health care services. Proposition 99 funds allocated to SFGH for the year ended June 30, 2004, amounted to $1.3 million and are included in other operating revenue.

SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were $191 million and estimated costs and expenses to provide charity care were $103 million in fiscal year 2004.

The City contracts on a year-to-year basis on behalf of SFGH with the University of California (UC). Under the contract, SFGH serves as a teaching facility for UC professional staff, medical students, residents, and interns who, in return, provide medical and surgical specialty services to SFGH's patients. The total amount for services rendered under the contract for the year ended June 30, 2004, was approximately $62.5 million.

In 1996, California passed Senate Bill 1953, mandating that all California acute care hospitals meet new seismic safety standards by 2013. In January 2001, the San Francisco Health Commission approved a resolution to support a rebuild effort for the hospitals, and the Department of Public Health conducted a series of planning meetings to review its options. It became evident that rebuilding rather than retrofitting was required, and that rebuilding SFGH presented a unique opportunity for the Department to make system-wide as well as structural improvements in its delivery of care for patients in 2013 and beyond. As of June 30, 2004, SFGH was studying available options, including co-location opportunities with UCSF Medical Center. The total funding required to rebuild the hospital is unknown at this time.

(h) Clean Water Program

The Clean Water Program (CWP) was established in 1977 pursuant to bond resolutions to account for the City's municipal sewage treatment and disposal system.

CWP's revenue, which consists mainly of sewer service charges, is pledged for the payment of principal and interest on various outstanding Sewer Revenue Bonds.

As of June 30, 2004, the CWP had outstanding commitments with third parties for capital projects and for materials and services totaling $28.7 million.

(i) San Francisco Market Corporation

The San Francisco Market Corporation is a non-profit corporation organized to acquire, construct, finance, and operate a produce market. The information about this non-profit corporation is presented in the financial statements of the proprietary funds as a non-major fund.

(12) SAN FRANCISCO REDEVELOPMENT AGENCY

The Redevelopment Agency of the City and County of San Francisco (the Agency) is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Since the organization of the Agency in 1948, the Agency has completed four redevelopment project areas and twelve redevelopment project areas are now underway. In addition, the Agency is undertaking feasibility studies for two potential redevelopment areas designated by the Board of Supervisors of the City and proposed expansion to two existing project areas.

The Agency acts as the lead Agency in administering the Housing Opportunities for Persons with AIDS (HOPWA) program, which is funded by a grant from the U.S. Department of Housing and Urban Development. The Agency applied for and was awarded a "Special Projects of National Significance" grant under the HOPWA program to provide partial rent subsidies and back to work job training.

In 1998, the Board of Supervisors approved ordinances and resolutions adopting the Mission Bay North and South Redevelopment Plans, Interagency Cooperation Agreements, Tax Allocation Agreements and related ordinances and resolutions. The two project areas total 303 acres. Mission Bay North consists of approximately 65 acres adjacent to the Pacific Bell Park. Mission Bay South includes approximately 238 acres of land. The Agency has entered into an Owner Participation Agreement with the owner/developer to provide for development of the project areas. The proposed development in the north includes 3,000 housing units, 20% of which will be affordable units, 350,000 square feet of urban entertainment retail space, 100,000 square feet of City-serving retail space, 55,000 square feet of neighborhood-serving retail space and six acres of public open space. The proposed development in the south will include 3,090 housing units, 20% of which will be affordable units, a 43-acre University of California San Francisco (UCSF) research campus, a 500 room hotel, 210,000 square feet of City-serving and neighborhood-serving retail space, five million square feet of commercial industrial space, a new fire and police station and a 500-student public school on land to be donated by UCSF. Mission Bay is expected to create over 31,000 new permanent jobs. The Mission Bay development will take place over 20 to 30 years and will require investment of over $145 million in new public infrastructure. Total development costs for the two project areas are expected to exceed $4 billion.

As of June 30, 2004, 1,079 residential units, including 148 affordable units, 24,000 square feet of office space, and 72,650 square feet of neighborhood retail space have been completed in Mission Bay North. A commercial office building totaling 285,000 square feet and two UCSF research buildings of 550,000 square feet have been completed in Mission Bay South.

The Agency has no direct taxing power and does not have the power to pledge the general credit or taxing power of the City, the State of California or any political subdivision thereof. However, California's Health and Safety Code allows redevelopment agencies with appropriate approvals of the local legislative bodies to recover costs of financing public improvements from increased tax revenues (tax increment) associated with increased property values of individual project areas. During the year, the Agency's revenue from property tax increment was $40.1 million.

The Public Initiatives Development Corporation (PIDC), was formed in May of 2002 to develop affordable housing on the Agency's behalf. The Board of PIDC is comprised of management of the Agency and other appointed individuals. Funding is dependent on the Agency and PIDC is reflected as a blended component unit in the Agency's financial statements. Activities during the year are relocating tenants, demolishing the building and starting construction of a 106 affordable units mixed-use development at the corner of 6^{th} and Howard Streets.

In May 2004, the Agency issued $33.6 million in Moscone Convention Center Lease Revenue Refunding Bonds, Series 2004. These bonds mature through July 1, 2024 with varying interest rates from 3% to 5.375%. A portion of the proceeds from the sale of the Series 2004 Moscone Refunding Bonds was used to establish an irrevocable escrow fund to refund the entire $38.4 million principal amount of the Agency's outstanding Moscone Convention Center Lease Revenue Bonds, Series 1994. The net proceeds of $40.5 million (including original issue premium of $0.6 million, $4.0 million from the Series 1994 Moscone Bonds reserve fund, and $8.7 million from the City; and after (1) depositing $3.4 million in a reserve fund; (2) depositing $2.1 million in an additions and betterment fund; and (3) payment of $0.9 million in underwriting fees, insurance and other costs) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed. The Series 94 Moscone Bonds will be called and redeemed on July 1, 2004. Although the advance refunding resulted in the recognition of a deferred accounting loss of $2.1 million for the fiscal year ended June 30, 2004, the Agency in effect reduced its aggregate debt service payments by approximately $15.9 million over the next 21 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $4.2 million.

In March 2004, the Authority issued $83 million in 2004 Series A Tax Allocation Refunding and Capital Improvement Revenue Bonds (San Francisco Redevelopment Projects) (2004 Series A Refunding Bonds). The 2004 Series A Refunding Bonds are secured by a pledge of the Agency's share of certain property tax revenues derived from related project areas. These bonds mature through August 1, 2021 with varying interest rates from 2.0% to 5.0%. The net proceeds were used to refund a portion of the 1993 Series B Tax Allocation Refunding Bonds (1993 Series B Refunding Bonds), in the amount of $50 million, and all of the 1993 Series C Tax Allocation Revenue Bonds (1993 Series C Bonds), in the amount of $25.7 million. In addition, the Agency intends to use approximately $11.5 million of the proceeds to aid construction, rehabilitation, and preservation of low and moderate-income housing in the City. The net proceeds of $78.9 million (including original issue premium of $2.1 million; and $7.2 million from the 1993 Series B Refunding Bonds and 1993 Series C Bonds reserve funds; and after (1) depositing $0.2 million in a revenue fund; (2) depositing $11.5 million in the low and moderate income housing fund; and (3) payment of $1.9 million in underwriting fees, insurance and other costs) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed.

The refunded 1993 Series B Refunding Bonds and the 1993 Series C Bonds were called and redeemed on May 20, 2004, and the liability for these bonds has been removed from the statement of net assets. Although the advance refunding resulted in the recognition of a deferred accounting loss of $3.0 million for the fiscal year ended June 30, 2004, the Agency in effect reduced its aggregate debt service payments by approximately $17.8 million over the next 18 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $6.5 million.

In March 2004, the Authority issued $4.4 million in 2004 Series B Taxable Tax Allocation Refunding Revenue Bonds (San Francisco Redevelopment Projects) (2004 Series B Refunding Bonds). The net proceeds of the 2004 Series B Refunding Bonds were used to refund all of the 1996 Series C Taxable Tax Allocation Revenue Bonds (1996 Series C Bonds), in the amount of $4.9 million. The net proceeds of $5.0 million (including original issue premium of $52.8 thousand; and $0.6 million from the 1993 Series B Refunding Bonds; and after payment of $79.7 thousand in underwriting fees, insurance and other costs) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed. The refunded 1996 Series C Bonds were called and redeemed on May 20, 2004, and the liability for these bonds has been removed from accompanying statement of net assets. Although the advance refunding resulted in the recognition of a deferred accounting loss of $97.1 thousand for the fiscal year ended June 30, 2004, the Agency in effect reduced its aggregate debt service payments by approximately $0.8 million over the next 4 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $0.2 million. The 2004 Series B Refunding Bonds are secured by a pledge of the Agency's share of certain property tax revenues derived from related project areas. These bonds mature through August 1, 2007 with interest rates of 2.0% and 3.0%.

In June 2004, the Authority issued $7.8 million in 2004 Series C Tax Allocation Revenue Bonds (Rincon Point-South Beach Redevelopment Project) (2004 Series C Bonds) and $45.9 million in 2004 Series D Taxable Tax Allocation Revenue Bonds (San Francisco Redevelopment Projects) (2004 Series D Bonds). These bonds are secured by a pledge of the Agency's share of certain property tax revenues derived from related Project Areas. The 2004 Series C Bonds mature through August 1, 2030 with varying interest rates of 3.4% to 5.0%. The 2004 Series D Bonds mature through August 1, 2018 with varying interest rates of 5.0% to 5.85%. The net proceeds from the 2004 Series C Bonds will be used to finance the construction of an office building at the Agency owned and operated small craft harbor and improvements to an adjacent pier in the Rincon Point South Beach Project Area. The major portion of the net proceeds from the 2004 Series D Bonds will be used to finance the construction, rehabilitation, and preservation of low-income housing and to complete a parking garage in the Yerba Buena Center Project Area. The remaining proceeds will be used to fund improvements and economic development activities in various Project Areas.

Outstanding bond issues had cumulative interest accretion of approximately $142.4 million as of June 30, 2004. Interest accretion is included in the accrued interest payable balance in the basic financial statements.

In order to facilitate construction and rehabilitation within the project areas, various construction loan notes, promissory notes and mortgage revenue bonds with an aggregate outstanding balance of approximately $701 million at June 30, 2004, have been issued. When these obligations are issued, they are secured by the related mortgage indebtedness and, in the opinion of management, are not considered obligations of the Agency or the City and therefore not included in the basic financial statements. Debt service payments will be made by developers or property owners.

California Health and Safety Code Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned must also be set aside for such purposes. The Agency established a Low and Moderate Income Housing Fund to account for this commitment.

The Agency had commitments under contracts for capital improvements of approximately $36 million at June 30, 2004.

(13) TREASURE ISLAND DEVELOPMENT AUTHORITY

The TIDA is a nonprofit public benefit corporation. The TIDA was authorized in accordance with the Treasure Island Conversion Act of 1997 and designated as a redevelopment agency pursuant to Community Redevelopment Law of the State of California. The TIDA is governed by seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors. The specific purpose of the TIDA is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse and conversion of the property known as Naval Station Treasure Island for the public interest, convenience, welfare and common benefit of the inhabitants of the City.

The mission of TIDA is to redevelop the former Naval Station Treasure Island and to manage its integration with the City in compliance with federal, state and City guidelines (including the California Tidelands Trust) to maximize revenues to the City's General Fund; to create new job opportunities for San Francisco residents, including assuring job opportunities for homeless and economically disadvantaged residents; to increase recreational and bay access venues for San Francisco and Bay Area residents; and to promote the welfare and well being of the citizens of San Francisco.

The services provided by TIDA include negotiating the acquisition of former Naval Station Treasure Island with the U.S. Navy and establishing the Treasure Island Redevelopment Project; renting Treasure Island facilities leased from the U.S. Navy to generate revenues sufficient to cover operating costs; maintaining Treasure Island facilities owned by the U.S. Navy which are not leased to the TIDA or the City; providing facilities for special events, film production and other commercial business uses; providing 1,000 housing units; and overseeing the U.S. Navy's toxic remediation activities on the former naval base.

During fiscal year 2004, TIDA's primary source of revenues included facility and housing rents. During fiscal year 2003, TIDA received Navy agreement to initiate the process of early transfer, including competitive selection of a contractor to complete the Navy's Treasure Island Remediation Program with Navy funding but under TIDA direction and supervision; entered an exclusive negotiating agreement with a private developer for the redevelopment of the former naval base; and completed a draft Environmental Impact Report (EIR) for the transfer. TIDA assisted with the opening of a new childcare center for Treasure Island residents and employees, and funded an extensive new program of recreation services for Island residents.

(14) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are transactions between entities where one or both entities do not participate in the City's pooled cash. The composition of interfund balances as of June 30, 2004, is as follows (in thousands):

Due to/from other funds (in thousands):

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental Funds	$ 28,894
	Internal Service Funds	859
	San Francisco International Airport	1,052
	Hetch Hetchy Water and Power	528
	Municipal Transportation Agency	589
	General Hospital Medical Center	15,288
	Port of San Francisco	598
	Laguna Honda Hospital	5,109
		52,917
Nonmajor Governmental Funds	Nonmajor Governmental Funds	5,384
		5,384
Water Department	Municipal Transportation Agency	2,221
		2,221
Hetch Hetchy Water and Power	General Fund	892
	Nonmajor Governmental Funds	12,619
	Municipal Transportation Agency	101
	General Hospital Medical Center	693
		14,305
Municipal Transportation Agency	Nonmajor Governmental Funds	42,072
	Water Department Fund	1,903
		43,975
Total		$ 118,802

Due to/from primary government and component units:

Receivable Entity	Payable Entity	Amount
Primary government - governmental	Component unit - SF Redevelopment Agency	$ 849

Transfers In (in thousands):

Transfers Out:

Funds	General Fund	Nonmajor Governmental	Internal Service Funds	Muncipal Transportation Agency	San Francisco General Hospital	Laguna Honda Hospital	Total
General fund	$ -	$ 47,236	$ 255	$ 134,022	$ 63,950	$ 31,853	$ 277,316
Nonmajor governmental funds	26,372	33,797	-	119,367	-	-	179,536
San Francisco International Airport	18,161	-	-	-	-	-	18,161
Hetch Hetchy	-	489	-	-	-	-	489
Municipal Transportation Agency	-	346	-	-	-	-	346
San Francisco General Hospital	69,385	1,158	-	-	-	-	70,543
Clean Water	-	143	-	-	-	-	143
Laguna Honda Hospital	7,573	-	-	-	-	-	7,573
Total transfers out	$ 121,491	$ 83,169	$ 255	$ 253,389	$ 63,950	$ 31,853	$ 554,107

The $277.3 million General Fund transfer out includes a total of $229.8 million in operating subsidies to Municipal Railway, General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers of $47.2 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the public library and community health services. The transfers between the nonmajor governmental funds are to provide support for various City programs and to provide resources for the payment of debt service.

The General Fund received transfers in of $69.4 million from General Hospital Medical Center as reimbursement for the SB 855 matching program (note 11(g)), $18.2 million from the San Francisco International Airport, representing a portion of concession revenue (note 11(a)), and $7.6 million transferred from Laguna Honda Hospital for prior year Tobacco Tax reimbursement.

(15) COMMITMENTS AND CONTINGENT LIABILITIES

(a) Grants and Subventions

Receipts from federal and state grants and other similar programs are subject to audit to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations. The City believes that no significant liabilities will result.

(b) Operating Leases

The City has noncancellable operating leases for certain buildings and data processing equipment which require the following minimum annual payments (in thousands):

Primary Government

Governmental Activities

Fiscal Years	
2005	$ 28,363
2006	24,735
2007	20,659
2008	17,425
2009	8,263
2010-2014	11,293
Total	$ 110,738

Business-type Activities

Fiscal Years	San Francisco International Airport	Municipal Transportation Agency	General Hospital Medical Center	Total Business-type Activities
2005	$ 5,237	$ 4,228	$ 3,763	$ 13,228
2006	5,512	1,651	1,718	8,881
2007	5,741	1,027	1,036	7,804
2008	5,741	802	340	6,883
2009	4,631	803	180	5,614
2010-2014	-	334	-	334
2015-2019	-	177	-	177
2020-2024	-	147	-	147
2025-2029	-	121	-	121
2030-2034	-	36	-	36
Total	$ 26,862	$ 9,326	$ 7,037	$ 43,225

Component Unit - Redevelopment Agency

The Redevelopment Agency (Agency) has noncancellable operating leases for its offices sites which require the following minimum annual payments (in thousands):

Fiscal Years	
2005	$ 2,280
2006	1,197
2007	838
2008	846
2009	854
2010-2014	4,267
2015-2019	4,267
2020-2024	4,267
2025-2029	4,267
2030-2034	4,267
2035-2039	4,267
2040-2044	4,267
2045-2049	4,267
2050	854
Total	$ 41,005

Several City departments lease land and various facilities to tenants and concessionaires who will provide the following minimum annual payments (in thousands):

Primary Government

Governmental Activities

Fiscal Years	
2005	$ 1,206
2006	1,057
2007	725
2008	476
2009	445
2010-2014	2,360
2015-2019	2,281
2020-2024	340
2025-2029	130
2030-2034	25
Total	$ 9,045

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	General Hospital Medical Center	Municipal Transportation Agency	Market Corp	Total Business-type Activities
2005........	$ 63,713	$ 27,311	$ 1,884	$ 2,674	$ 891	$ 96,473
2006........	57,266	23,530	1,950	2,390	856	85,992
2007........	50,856	21,173	1,991	2,147	774	76,941
2008........	50,095	19,719	2,033	1,891	475	74,213
2009........	26,925	17,941	2,077	1,747	379	49,069
2010-2014	36,099	73,136	2,123	4,010	1,707	117,075
2015-2019	-	59,672	-	-	-	59,672
2020-2024	-	51,155	-	-	-	51,155
2025-2029	-	44,404	-	-	-	44,404
2030-2034	-	41,916	-	-	-	41,916
2035-2039	-	34,583	-	-	-	34,583
2040-2044	-	21,007	-	-	-	21,007
2045-2049	-	17,437	-	-	-	17,437
2050-2054	-	8,020	-	-	-	8,020
2055-2059	-	7,023	-	-	-	7,023
2060-2064	-	7,023	-	-	-	7,023
2065-2069	-	3,903	-	-	-	3,903
Total........	$ 284,954	$ 478,953	$ 12,058	$ 14,859	$ 5,082	$ 795,906

Component Unit - Redevelopment Agency

The Agency leases various facilities within the Yerba Buena Center, Western Addition and Hunters Point areas. The minimum annual payments are as follows (in thousands):

Fiscal Years	
2005................	$ 3,016
2006................	2,900
2007................	2,839
2008................	2,839
2009................	2,843
2010-2014.........	14,753
2015-2019.........	15,368
2020-2024.........	14,454
2025-2029.........	14,982
2030-2034.........	16,029
2035-2039.........	17,151
2040-2044.........	18,427
2045-2049.........	9,160
2050-2054.........	555
2055-2059.........	365
2060-2064.........	325
2065-2069.........	302
2070-2074.........	250
2075-2079.........	178
2080-2084.........	150
2085-2089.........	150
2090-2094.........	150
2095-2097.........	98
Total................	$ 137,284

(c) Other Lease Commitments

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately $14 million per year through July 1, 2025. The lease payments are intended to approximate the debt service requirements of the corresponding lease revenue bonds that were issued by the Agency to finance the construction and expansion of the Moscone Convention Center which are recorded as a long term obligation of the Agency. The City is also making lease payments to outside lessors for various telecommunication and information equipment through an internal service fund.

Amounts to be provided for capital leases are as follows (in thousands):

Fiscal Years	Moscone Convention Center	Other	Total
2005..	$ 6,758	$ 645	$ 7,403
2006..	18,741	424	19,165
2007..	18,744	65	18,809
2008..	19,441	-	19,441
2009..	19,510	-	19,510
2010-2014...	98,708	-	98,708
2015-2019...	98,414	-	98,414
2020-2024...	16,744	-	16,744
2025-2026...	2,956	-	2,956
Total minimum lease payments........................	300,016	1,134	301,150
Less amounts representing interest..................	(106,298)	(37)	(106,335)
Present value of maximum lease payments......	$ 193,718	$ 1,097	$ 194,815

(d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $904 million at June 30, 2004.

The City is a participant in the Peninsula Corridor Joint Powers Board ("PCJPB"), which was formed in 1991 to plan, administer and operate the Peninsula CalTrain rail service. The City, on behalf of MUNI, is responsible for 11.6% of the net operating costs and administrative expenses of the PCJPB for operating and capital needs. During the fiscal year ended June 30, 2004, the City contributed approximately $8.6 million to the PCJPB. This is paid by MTA from the subsidy transfer it receives from the City.

(16) RISK MANAGEMENT

Risk Retention Program Description

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; automobile liability and accident claims (primarily for Muni Railway); medical malpractice; natural disasters; employee health benefit claim payments for direct provider care (collectively referred to herein as estimated claims payable); and injuries to employees (workers' compensation). With certain exceptions, it is the policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations.

The City maintains limited excess coverage for certain facilities. The SFO carries liability insurance coverage of $750 million and commercial property insurance coverage for full replacement value on all facilities owned by the SFO. The SFO does not carry insurance for losses due to seismic activity. The

SFO is self-insured for general liability up to the first $10,000 and the SFO carries liability insurance for any amounts in excess of $10,000. The Port carries commercial insurance for all general liability, property and casualty risks of loss. Additionally, limited insurance coverage is maintained by the City for the Moscone Convention Center property, personal liability, and for art at City-owned museums.

The San Francisco Redevelopment Agency is a member of the Bay Cities Joint Powers Authority which provides coverage for its general liability, automobile liability, and public officials errors and omissions risks with combined single limits of $15 million per occurrence and a deductible of $50,000 self-insurance retention per occurrence.

Any claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Agency and the City.

Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Expenditures and liabilities for all workers' compensation claims and other estimated claims payable are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other legal and economic factors. The recorded liabilities have not been discounted.

Estimated Claims Payable

Numerous lawsuits related to the governmental fund types are pending or threatened against the City. The City's liability as of June 30, 2004 has been actuarially determined and includes an estimate of incurred but not reported losses. In addition, various businesses in the City had filed suit in California Superior Court challenging the constitutionality of the City Gross Receipts and Payroll Expense Tax Ordinances. The majority of these suits have been settled for approximately $63 million. The City has issued debt to pay off this liability over 10 years. A few remaining unsettled claims may be settled over the next 12 months and funds are included in the City's estimated claims payable to cover these expected expenses.

Changes in the reported estimated claims payable since June 30, 2002, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2002-2003	$ 86,731	$ 35,793	$ (29,220)	$ 93,304
2003-2004	$ 93,304	$ 71,967	$ (37,835)	$ 127,436

Breakdown of the estimated claims payable at June 30, 2004 is as follows (in thousands):

Governmental activities:	
Current portion of estimated claims payables	$ 19,881
Long-term portion of estimated claims payable	59,924
Business-type activities:	
Current portion of estimated claims payables	15,463
Long-term portion of estimated claims payable	32,168
Total	$ 127,436

The Retirement System is involved in two class action type lawsuits which are collectively referred to as "Final Compensation" cases. These lawsuits allege that the Retirement System should include additional "pay types" in pension calculations. The most significant pay types common to all members of the Retirement System are lump sum payments after termination of employment for sick leave and vacation. The police, fire, and transit employees have additional claims for special pay types specific to those employee groups. There is also a new lawsuit against the Retirement System by the Veteran Police Officers Association (VPOA) that alleges that the Retirement System should include Police Officers' Standards Training (POST) pay in pension calculations for those police officers who retired prior to the creation of the POST ranks. These cases are being vigorously contested. The City Attorney has sought outside counsel to help defend the claims. The possible loss to the Retirement System, should these cases be successful, while difficult to estimate, could range between $500 million and $750 million. The actual loss could exceed this range. No liability has been accrued by the City relating to these lawsuits as of June 30, 2004.

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2004 has been actuarially determined and includes an estimate of incurred but not reported losses. The total amount estimated to be payable for claims incurred as of June 30, 2004 was $397.1 million which is reported in the appropriate individual funds in accordance with the City's accounting policies (note 2).

Changes in the reported accrued workers' compensation since June 30, 2002, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2002-2003	$ 304,181	$ 127,008	$ (66,933)	$ 364,256
2003-2004	$ 364,256	$ 108,177	$ (75,307)	$ 397,126

Breakdown of the accrued workers' compensation liability at June 30, 2004 is as follows (in thousands):

Governmental activities:	
Current portion of accrued workers' compensation liability	$ 45,138
Long-term portion of accrued worker's compensation liability	168,492
Business-type activities:	
Current portion of accrued workers' compensation liability	40,108
Long-term portion of accrued worker's compensation liability	143,388
Total	$ 397,126

(17) SUBSEQUENT EVENTS (UNAUDITED)

Short-term Debt

In August 2004, the Water Department issued an additional $25 million of commercial paper notes to fund capital projects associated with Proposition A, which passed in November 2002 to support the renovation of the water system. As of that date, the commercial paper program had a weighted average interest rate of 1.2% and a weighted average term of 112 days.

In September 2004, the San Francisco County Transportation Authority issued the second tranche of $100 million of the programmed $200 million aggregate principal amount of Commercial Paper Notes (Limited Tax Bonds), Series A and B. In September 2004, the Authority entered into a loan agreement with MUNI in the amount of $22.6 million and authorized a draw against the loan of $12 million for reimbursement of construction costs for the Metro East Maintenance Facility of the Third Street Light Rail Project.

Long-term Debt

In July 2004, the City issued Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project) in the amount of $39.4 million. The Series 2004-R1 were issued to provide funds to refinance an existing City courthouse building located at 400 McAllister Street in the City by refunding in whole a series of certificates of participation executed and delivered to finance the construction, furnishing and equipping of said building, $40.6 million of which are currently outstanding. The Series 2004-R1 bonds have interest rates ranging from 3.0% to 4.5% and mature April 2007 through April 2021. The refunding resulted in gross debt service savings of $7.4 million.

In August 2004, the Port issued Refunding Revenue Bonds, Series 2004 in the amount of $19.9 million. The 2004 Bonds were issued to provide funds to refund and redeem all $23.2 million in aggregate principal amount of the Port's outstanding Refunding Revenue Bonds, Series 1994. The Series 2004 Bonds have interest rates ranging from 2.25% to 4.0% and mature July 2005 through July 2009. The Series 2004 Bonds are secured by revenues of the Port. The refunding resulted in gross debt service savings of $5.2 million.

In October 2004, the City issued a total of $76.9 million in General Obligation Bonds. They consist of the following two bonds: $68.8 million Neighborhood Recreation and Park Facilities Improvement Bonds, Series 2004A and $8.1 million California Academy of Sciences Improvement Bonds, Series 2004B. The 2004A Bonds will finance the acquisition, construction, and reconstruction of certain improvements to recreation and park facilities. The 2004B will finance the acquisition, construction, and reconstruction of certain improvements to the California Academy of Sciences.

Elections

On November 2, 2004 the San Francisco voters approved the following propositions that will have fiscal impact on the City:

Proposition C – Health Service System This Charter amendment removes the Health Service System from the Department of Human Resources and makes it a separate City department. There is no immediate fiscal impact on the City. However, the amendment may affect costs in that it changes the composition of the Health Service Board, which oversees City employee and retiree health benefits, from a majority of members who are appointed by City officers to a majority of members who are elected from among the beneficiaries of the system.

Proposition E – Police Fire Survivor Benefits This Charter amendment provides that when a police officer or firefighter dies in the line of duty, his or her survivor receives 100% of the retirement benefits, regardless of when the officer or firefighter was hired. Formerly, if the police officer or firefighter was hired after 1976, the survivor received 75% of the retirement benefits. The cost to the City and County will increase, as estimated by the Retirement System Actuary, by approximately $1.0 million per year, approximately .05% of payroll at current rates, for the next 20 years.

Proposition G – Health Plans for City Residents This Charter amendment authorizes the Health Service Board, by a two-thirds vote of its members, to establish medical and dental plans for City residents, in addition to the other plans currently available to City employees and retirees. This measure does not require the City to pay any portion of the cost of these plans. However, the cost to research, establish and fund any health plan that would offer coverage to City residents could be significant.

Proposition I – Economic Analysis of Legislation This ordinance creates an Office of Economic Analysis that would employ two staff economists. This Office would analyze proposed City legislation and report on the likely impact of the legislation on the City's ability to attract and retain businesses, create and retain jobs, and other matters affecting the overall economic health of the City. The salary and fringe benefit cost of staff economists can be expected to be approximately $250,000 annually depending on the qualifications desired. It is also estimated that the cost of preparing a required economic development plan and funding for survey and research work can be at least an additional $250,000 per year.

Proposition AA – Bart Earthquake Safety Bond This authorizes the San Francisco Bay Area Rapid Transit District to issue bonds not to exceed $980 million dollars to make earthquake safety improvements to BART facilities in Contra Costa, San Francisco and Alameda Counties, including strengthening tunnels, bridges, overhead tracks and the underwater Transbay tube, and establish an independent citizens' oversight committee to verify bond revenues are spent as promised.

On November 2, 2004 the San Francisco voters did not approve the following propositions that would have allowed the City to increase taxes to minimize budget shortfalls and maintain City Services.

Proposition J – Sales Tax Increase This was an ordinance that would have allowed the City to increase the local sales tax by ¼% (one-quarter-of-one percent) to 8 ¾%. The City would have controlled the additional tax funds and could have spent them for any public purpose. This proposed ordinance would have generated additional sales tax revenue for the City of approximately $8 million in the fiscal year which began of July 1, 2004, and total revenues of approximately $33.6 million annually beginning in fiscal year 2005-06, the first full fiscal year that the new tax rate would have been effective. Although Proposition J failed to pass, the Mayor's

Office has already begun to implement an 18-month plan to cover the funding shortfall and the Controller is controlling expenditures to ensure that no structural shortfall occurs.

Proposition K – Business Tax This was an ordinance that would have created a temporary four-year "gross receipts" tax on certain companies and individuals doing business with the City. In 2005, the City would have collected 0.1% (one-tenth-of-one percent) of gross receipts from companies and individuals doing business in the City. The gross receipts tax funds would have been used by the City for any public purpose. This proposed ordinance would have generated business tax revenues for the City of approximately $17 million in the fiscal year which began on July 1, 2004, and total revenues of approximately $43 million annually beginning in fiscal year 2005-06, the first fiscal year that the new tax rate would have been effective. Although Proposition K failed to pass, the Mayor's Office has already begun to implement an 18-month plan to cover the funding shortfall and the Controller is controlling expenditures to ensure that no structural shortfall occurs.

SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO ★ CONTROLLER'S OFFICE ★

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APPENDIX D

SUMMARY OF MASTER TRUST AGREEMENT

The following is a summary of certain provisions of the Master Trust Agreement (the "Trust Agreement") which are not described elsewhere in this Official Statement. These summaries do not purport to be complete or definitive and reference should be made to such documents for a full and complete statement of their provisions. All capitalized terms not defined in the Official Statement have the meanings set forth in the Trust Agreement.

DEFINITIONS

"Alternate Liquidity Facility" means an alternate Liquidity Facility, delivered to the Trustee pursuant to and meeting the requirements of the Trust Agreement.

"Authorized City Representative" means the City's Mayor, Controller or Director of Public Finance or any other person as may be designated and authorized to sign for the City.

"Authorized Denomination" means (i) for ARS, $25,000 or any integral multiple thereof; (ii) for a Series of the Bonds during any Daily Mode or Weekly Mode, $100,000 or any integral multiple of $5,000 in excess of $100,000; (iii) for a Series of the Bonds during any Term Mode or bearing interest at a Fixed Rate, $5,000 or any integral multiple thereof.

"Bank Bonds" means Bonds purchased with amounts drawn under the Liquidity Facility pursuant to the Trust Agreement and owned by a Liquidity Provider or its transferees.

"Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

"Bondholder" or "Holder" or "Owner" means, with respect to any Bond, the Person in whose name such Bond is registered.

"Bonds" means, collectively, the Series 2005 Bonds and any other bonds issued under the Trust Agreement.

"Book-Entry Bonds" means the Bonds registered in the name of the nominee of DTC, or any successor securities depository for the Bonds, as the registered owner thereof pursuant to the terms and provisions of the Trust Agreement.

"Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which the Principal Corporate Trust Office of the Trustee or the office of a Liquidity Provider at which draws under a related Liquidity Facility are presented are authorized or required by law to close or (iii) a day on which the New York Stock Exchange is closed.

"Certificate," "Statement," "Request," "Requisition" and "Order" of the City means a written certificate, statement, request, requisition or order signed in the name of the City by an Authorized City Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Trust Agreement, each such instrument shall include the statements provided for in the Trust Agreement.

"Charter" means the Charter of the City and County of San Francisco as it may be amended.

City" means the City and County of San Francisco, a city and county duly organized and existing under and by virtue of its Charter and the Constitution of the State.

"Code" means the Internal Revenue Code of 1986 and the regulations of the United States Department of Treasury issued thereunder, and in this regard reference to any particular section of the Code shall include reference to all successors to such section of the Code, when appropriate.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City and related to the original authorization, execution, sale and delivery of a Series of the Laguna Honda Bonds, including but not limited to: costs of preparation and reproduction of documents; fees and expenses of the City; initial fees, expenses and charges of the Trustee (including its counsel), if any; legal fees and charges of co-bond counsel, fees of co-financial advisors; rating agency fees; fees, expenses and charges of the Credit Providers and the Liquidity Providers and their counsel; and any other cost, charge or fee in connection with the original issuance and delivery of the Laguna Honda Bonds, including the administrative costs of the City.

"Co-Trustee" means either of the City or the Trustee Bank, as provided in the Trust Agreement.

"Credit Facility" means the insurance policy or other credit facility of the Credit Provider provided with respect to a Series of the Bonds.

"Credit Provider" means any provider of a Credit Facility with respect to a Series of the Bonds and its successors and assigns. "Credit Providers" means, collectively, the providers of each Credit Facility with respect to the Bonds and their successors and assigns.

"Daily Mode" means the period during which Daily Rates are in effect.

"Daily Rate" means a variable interest rate on the Bonds established on each Business Day in accordance with the Trust Agreement.

"Declaration of Trust" means (i) the Declaration of Trust, dated as of May 1, 2005, by the Treasurer on behalf of the owners of the Series 2005A Bonds, as originally executed and as it may from time to time be amended or supplemented, providing for the terms of the Series 2005A Bonds and (ii) any Declaration of Trust, by the Treasurer on behalf of the owners of the Laguna Honda Bonds, as originally executed and as it may from time to time be amended or supplemented, providing for the terms of a Fixed Rate Series of the Laguna Honda Bonds.

"DTC Participant" means those broker-dealers, banks and other financial institutions from time to time for which the Securities Depository holds Bonds as a securities depository.

"Event of Default" means any of the events of default specified in the Trust Agreement.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30 or any other twelve-month, or fifty-two week, period hereafter selected and designated as the official fiscal year period of the City.

"Fitch" means Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"Fixed Rate" means the fixed interest rate on a Series of the Bonds as determined pursuant to the Trust Agreement.

"Fixed Rate Bonds" means a Series of the Bonds issued at or converted to the Fixed Rate.

"Government Certificates" means evidences of indebtedness of ownership of proportionate interests in future principal and/or interest payments of Government Obligations.

"Government Obligations" means and includes any of the following securities: cash; State and Local Government Series notes issued by the United States Treasury; United States Treasury bills, notes and bonds as traded on the open market; zero coupon United States Treasury bonds; and interest strips of the Resolution Funding Corporation in book-entry form for which separation of principal and interest is made by the Resolution Funding Corporation itself in book-entry form on the books of a Federal Reserve Bank.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Services," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Moody's Investors Service "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; Kenny S&P, "Notification Department," 55 Water Street, 45th Floor, New York, New York 10041; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other information services providing information with respect to called bonds as the City may designate in writing to the Trustee.

Interest Payment Date" means (1) with respect to a Series of Bonds in a Term Mode with a Term Rate Period of 12 months or less, the Business Day next succeeding the last day of the Term Rate Period; (2) with respect to a Series of Bonds in a Term Mode with a Term Rate Period of greater than 12 months, each June 15 and December 15 and the Business Day next succeeding the last day of the Term Rate Period, (3) with respect to a Series of Bonds in a Daily Mode or a Weekly Mode, the fifteenth day of each month (or if such fifteenth day of the month is not a Business Day, the next succeeding Business Day); (4) with respect to a Series of Bonds bearing interest at a Fixed Rate, each June 15 and December 15; (5) with respect to a Series of Bonds bearing interest at an Initial Interest Rate, each June 15 and December 15 or as provided in a Supplemental Trust Agreement; (6) any Mode Change Date; (7) the maturity date of a Series of the Bonds; (8) with respect to Bank Bonds, the dates set forth in the Liquidity Facility for such Series of the Bonds and (9) with respect to ARS, the ARS Interest Payment Date.

"Interest Period" shall mean (i) with respect to ARS, the ARS Interest Period, and (ii) for non-ARS Bonds, the period from and including any Interest Payment Date to and including the day immediately preceding the next following Interest Payment Date, except that the first Interest Period shall be the period from and including the date of issuance of a Series of the Bonds or initial Mode Change Date, as appropriate, to and including the day immediately preceding the first Interest Payment Date.

"Laguna Honda Bonds" means, collectively, Bonds issued hereunder pursuant to Proposition A and any fixed rate bonds issued under a declaration of trust or other issuance document pursuant to Proposition A.

"Law" means the Charter of the City and County of San Francisco, the statutes and Constitution of the State of California, Proposition A and the Ordinance.

"Liquidity Facility," means a commitment of a Liquidity Provider to provide liquidity for the purchase of a Series of the Bonds, or any Alternate Liquidity Facility, in form and substance satisfactory to the Credit Provides, in accordance with the Trust Agreement.

"Liquidity Facility Account," if any, shall have the meaning ascribed to in the Trust Agreement.

"Liquidity Provider" means any institution issuing a Liquidity Facility then in effect with respect to a Series of the Bonds. "Liquidity Providers" means, collectively, the institutions issuing each Liquidity Facility then in effect with respect to the Bonds.

"Maximum Rate" means, for ARS, the ARS Maximum Rate, and for a Series of the Bonds in the Weekly Mode, Daily Mode, Term Mode or bearing interest at a Fixed Rate, means the lesser of the maximum rate allowed by law and twelve percent (12%) per annum.

"Mode" means, as the context may require, the Term Mode, the Weekly Mode, the Daily Mode, the Fixed Rate or ARS.

"Mode Change" means with respect to any Series of the Bonds, changing from one Mode to a different Mode.

"Mode Change Date" means with respect to any Series of the Bonds, the day on which a Mode begins following the last day of a different Mode.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"1998 Master Settlement Agreement" means the settlement agreement, dated November 23, 1998, by and among the Attorneys General and other representatives of 46 states of the United States (including California) Puerto Rico, the U.S. Virgin Islands, American Samoa, the Northern Mariana Islands, Guam, the District of Columbia and five tobacco manufacturers (Brown & Williamson Tobacco corporation, Lorillard Tobacco Company, Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Commonwealth Tobacco, and Liggett & Myers).

"Nominee" means (a) initially, Cede & Co., as nominee of DTC, and (b) any other nominee of the Securities Depository designated pursuant to the Trust Agreement.

"Opinion of Bond Counsel" means an Opinion of Counsel by a nationally recognized bond counsel firm experienced in matters relating to the validity of and the exclusion from gross income for federal income tax purposes of interest payable on obligations of state and political subdivisions.

"Opinion of Counsel" means a written opinion of counsel (who may be counsel for the City) appointed by the City that is acceptable to the Credit Provider. If and to the extent required by the provisions of the Trust Agreement, each Opinion of Counsel shall include the statements provided for in the Trust Agreement.

"Optional Tender Date" is defined in the Trust Agreement.

"Ordinance" means Ordinance No. 24-04 adopted by the Board of Supervisors of the City on February 10, 2004 and signed by the Mayor on February 19, 2004.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to certain provisions of the Trust Agreement) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Trust Agreement except (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the City shall have been discharged in accordance with the Trust Agreement; and (c) Bonds for the transfer or exchange of which, or in lieu of or in substitution for which, other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Trust Agreement.

"Permitted Investments" means, if and to the extent permitted by law and by any policy guidelines promulgated by the City:

(a) Government Obligations or Government Certificates;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Farmers Home Administration (FMHA) - Certificates of beneficial ownership;

(ii) Federal Housing Administration Debentures (FHA);

(iii) General Services Administration - Participation Certificates;

(iv) Government National Mortgage Association (GNMA or "Ginnie Mae") - guaranteed mortgage-backed bonds and GNMA guaranteed pass-through obligations (participation certificates);

(v) U.S. Maritime Administration - Guaranteed Title XI financing; and

(vi) U.S. Department of Housing and Urban Development (HUD) - Project notes and local authority bonds;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States of America government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Federal Home Loan Bank System - Senior debt obligations (consolidated debt obligations);

(ii) Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") - Participation certificates (mortgage-backed securities) and senior debt obligations;

(iii) Fannie Mae - mortgage-backed securities and senior debt obligations (excluding stripped mortgage securities which are valued greater than par on the portion of the unpaid principal);

(iv) Resolution Funding Corp. (REFCORP) - Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form; and

(v) Federal Farm Credit System - Consolidated systemwide bonds and notes;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AAAm-G or AAAm and by Moody's of Aaa, including money-market funds for which the Trustee Bank or its parent and their affiliates provide investment advice or other investment management services;

(e) Certificates of deposit issued by a state or national bank or a state or federal savings and loan, provided that such certificates of deposit shall be either (i) continuously and fully insured by the FDIC, or (ii) be secured at all times by a perfected security interest in collateral described in subsections (a) and/or (b) above held by a third party;

(f) Savings accounts or money market deposits that are fully insured by the FDIC;

(g) Investment agreements, including guaranteed investment contracts acceptable to the Credit Provider;

(h) Commercial paper of "prime" quality rated in the highest rating category by Moody's and S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States;

(i) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(j) Federal funds or banker's acceptances which are eligible for purchases by members of the Federal Reserve System, drawn on any bank the short-term obligations of which are rated in the highest rating category by Moody's and S&P, provided that the maturity cannot exceed 270 days;

(k) Repurchase agreements either (a) with maturities of 30 days or less, or (b) approved by the Credit Provider;

(l) "Pre-funded" municipal obligations rated in the highest rating category by Moody's and S&P; and

(m) Any investment approved in writing by the Credit Provider.

"Person" means any legal entity or natural person as the context may require.

"Principal Corporate Trust Office" means, while the City is acting as Trustee hereunder, the office of the Treasurer and, to the extent the Trustee Bank is acting as Trustee under the Trust Agreement, the office of the Trustee Bank at Deutsche Bank National Trust Company, 101 California Street, 46th Floor, San Francisco, California 94111; Attention: Trust and Security Services.

"Proposition A" means that proposition approved by the voters of the City on November 2, 1999, which authorized the City to borrow $299,000,000 through the issuance of general obligation bonds to finance the Project.

"Purchase Date" shall mean the date on which any Bond is required to be purchased pursuant to the Trust Agreement.

"Purchase Price" shall mean that amount equal to 100% of the principal amount of any Bond purchased pursuant to the Trust Agreement, plus accrued and unpaid interest thereon to but not including the Purchase Date or the date on which such Bond is deemed purchased in accordance with the Trust Agreement.

"Rate Determination Date" means the date on which the interest rate(s) with respect to a Series of the Bonds other than ARS shall be determined, which (i) in the case of the Daily Mode, shall be each Business Day by 9:30 a.m. New York time; (ii) in the case of the Weekly Mode, shall be each Wednesday (or such other day of the week as provided for a Series of the Bonds in a Supplemental Trust Agreement) or, if Wednesday is not a Business Day, the next following Business Day, or in the case of a conversion to the Weekly Mode shall be at least one Business Day prior to the Mode Change Date; (iii) in the case of the Term Mode, shall be at least one Business Day prior to the first day of a Term Rate Period; (iv) in the case of conversion to the

Fixed Rate, shall be a date determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date; and (v) in the case of conversion to the Initial Interest Rate, shall be at least one Business Day prior to the Mode Change Date.

"Rebate Requirement" shall have the meaning assigned to that term in the Tax Certificate.

"Record Date" shall mean (i) the Business Day immediately preceding the applicable Interest Payment Date for a Series of the Bonds during the Daily Mode or the Weekly Mode, (ii) the last day of the month immediately preceding each Interest Payment Date during a Term Mode or for a Series of the Bonds bearing interest at a Fixed Rate and (iii) with respect to a Series of the Bonds that is ARS, the second Business Day next preceding each ARS Interest Payment Date.

"Redemption Price" means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion), premium, if any, and interest, payable upon redemption thereof pursuant to the provisions of such Bond and the Trust Agreement.

"Remarketing Agent" means initially the Persons appointed pursuant to the Trust Agreement or a Supplemental Trust Agreement. Such Persons shall meet the requirements of the Trust Agreement and be appointed by the City and consented to by the Credit Providers and the Liquidity Providers.

"Remarketing Agreement" means each agreement between the City and a Remarketing Agent. Each Remarketing Agreement shall be substantially in the form of the Remarketing Agreements, each dated as of May 1, 2005, each by and between the City and Banc of America Securities LLC, Bear, Stearns & Co. Inc. and E.J. De La Rosa & Co., Inc.

"Required Stated Amount" means, with respect to a Liquidity Facility, at any time of calculation, an amount equal to the aggregate principal amount of all Bonds in the Daily Mode, Weekly Mode or Term Mode then Outstanding, together with interest accruing thereon, which, with respect to the related Liquidity Facility, shall be calculated based on an annual rate of interest equal to the Maximum Interest Rate for a period equal to the number of days required by each Rating Agency at the time rating the Bonds with respect to any Bonds which are converted to a Daily Mode, a Weekly Mode or a Term Mode (provided that the calculation of such amount shall include days of interest equal to at least (i) for a Term Mode Interest Period of 12 months or less, the number of days of interest in such Interest Period, plus four days or (ii) for a Term Mode Interest Period of greater than 12 months, the number of days in such Interest Period).

"Responsible Officer" of the Trustee means and includes every vice president, every assistant vice president, every trust officer and every officer and assistant officer of the Trustee, other than those specifically above mentioned, to whom any corporate trust matter is referred because of his or her knowledge of, and familiarity with, a particular subject and who is specifically assigned to administer the duties of the Trustee under the Trust Agreement.

"Revenue Fund" means the fund by that name established pursuant to the Trust Agreement.

"Revenues" means all payments received by the Trustee from the City, including, without limiting the generality of the foregoing, the proceeds of *ad valorem* taxes levied for the Bonds, Tobacco Revenues and all interest, profits or other income derived from the investment of any money in any fund or account established pursuant to the Trust Agreement (except to the extent such interest, profits or other income is required to be transferred to or retained in the Rebate Fund pursuant to the Trust Agreement or the Tax Certificate).

"Securities Depository" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attn. Call Notification Department, Fax (212) 855-7232, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories, or no such depositories, as the City may indicate pursuant to the Trust Agreement.

"Self- Liquidity" has the meaning provided in the Trust Agreement pursuant to which the City may terminate or allow the expiration of any existing Liquidity Facility and make its own arrangements for purchase of a Series of the Bond.

"Series 2005 Bonds" means, collectively, the Series 2005B Bonds, the Series 2005C Bonds and the Series 2005D Bonds.

"Series 2005A Bonds" means the City and County of San Francisco Variable Rate Demand General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005A issued pursuant to a Declaration of Trust of the Treasurer of the City, dated as of May 1, 2005.

"Series 2005B Bonds" means the City and County of San Francisco Variable Rate Demand General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005B.

"Series 2005C Bonds" means the City and County of San Francisco Variable Rate Demand General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005C.

"Series 2005D Bonds" means the City and County of San Francisco Variable Rate Demand General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005D.

"Standby Bond Purchase Agreement" means the Standby Bond Purchase Agreement, dated as of May 1, 2005, by and between the City and the 2005 Liquidity Provider, as amended or supplemented from time to time, or any similar agreement with respect to a Liquidity Facility or an Alternate Liquidity Facility.

"State" means the State of California.

"Stated Expiration Date" means the date, if any, upon which a Liquidity Facility then in effect is scheduled to expire (taking into account any extensions of such Stated Expiration Date) in accordance with its terms without regard to any early termination thereof.

"S&P" means Standard & Poor's Ratings Services, a corporation organized and existing under the laws of the state of New York, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"Tax Certificate" means a tax certificate executed by the City dated the date of issuance of a Series of the Bonds, as the same may be amended or supplemented in accordance with its terms.

"Tobacco Revenues" means amounts the City receives, if any, under the 1998 Master Settlement Agreement that the City makes available for the payment or redemption of the Bonds.

"Trustee" means one or both of the Co-Trustees as provided in the Trust Agreement; provided that so long as an Event of Default shall have occurred and be continuing "Trustee" means solely the Trustee Bank.

"Trustee Bank" means Deutsche Bank National Trust Company, a national banking association organized and existing under the laws of the United States, or any other association or corporation having an office for servicing the Bonds in New York, New York which may at any time be substituted in its place as provided in the Trust Agreement. If at any time the Trustee Bank is unable to carry out the tender agent functions provided in the Trust Agreement, the term "Trustee Bank " shall mean a financial institution having an office for servicing the Bonds in New York, New York appointed to act as tender agent by the City which is qualified to carry out such functions and satisfies the requirements of the Trust Agreement.

"2005 Credit Facility" means, collectively, the three separate insurance policies of the 2005 Credit Provider provided with respect to each Series 2005 Bond.

"2005 Credit Provider" means MBIA Insurance Corporation, the provider of the 2005 Credit Facility, and its successors and assigns.

"2005 Liquidity Facility" means the commitment of the 2005 Liquidity Provider to provide liquidity for the purchase of the Series 2005 Bonds.

"2005 Liquidity Provider" means JPMorgan Chase Bank, the institution issuing the 2005 Liquidity Facility and its successors and assigns.

"Weekly Mode" means the period during which Weekly Rates are in effect.

"Weekly Rate" means a variable interest rate on a Series of the Bonds established weekly in accordance with the Trust Agreement.

"Weekly Rate Period" means each period a Weekly Rate is in effect for a Series of the Bonds commencing on Thursday and ending on the next Wednesday; provided that the first Weekly Rate Period after any change from a different Mode to a Weekly Interest Mode shall begin on the Mode Change Date to the Weekly Interest Mode; provided further that a Supplemental Trust Agreement may provide for different seven day periods for a particular Series of the Bonds so long as such seven day periods do not begin or end on a Saturday or Sunday.

TRUST AGREEMENT

The Trust Agreement sets forth the terms of the Bonds, the nature and extent of the security, various rights of the Bondholders, rights duties and immunities of the Co-Trustee and the rights and obligations of the City. Although certain provisions of the Trust Agreement are summarized below, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Trust Agreement.

Establishment and Application of Project Account

The City shall establish, maintain and hold in trust a project account to be designated as the "General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005 B-D Project Account" (the "Project Account"). The Project Account shall be maintained by the Treasurer, as a separate account, segregated and distinct from all other accounts. The City may establish such accounts and subaccounts within the Project Account as may be necessary or convenient in connection with the administration of the Project or the Bonds.

All of the proceeds of the sale of the Bonds, excluding any premium and accrued interest received thereon, shall be deposited by the Treasurer to the credit of the Project Account and shall be applied to Project Costs. When such objects and purposes have been accomplished, any moneys remaining in such account shall be transferred to the Bond Account held by the City Treasurer pursuant to the Ordinance and applied to the payment of the principal of and interest on any Series of Bonds.

Revenue Fund; Pledge and Assignment of Amounts in Revenue Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the Revenue Fund. All Revenues shall be promptly deposited by the Trustee upon receipt thereof, in the Revenue Fund; except that Revenues comprised of all interest, profits and other income received from the investment of accounts and funds established pursuant hereto shall be deposited as provided in the Trust Agreement. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Trust Agreement. Any amounts on deposit in the Revenue Fund when there are no longer any Bonds Outstanding shall be returned to the City and deposited in the General Fund subject to any conditions set forth in the Tax Certificate.

If the Trustee has not received any payment to pay principal or redemption price of or interest on the Bonds by the second Business Day prior to the date such payment is due, the Trustee shall immediately notify the City and the Credit Providers of such insufficiency by telephone, telecopy or telegram and confirm such notification by written notice. Failure by the Trustee to give notice pursuant to this paragraph, or the insufficiency of any such notice, shall not affect the payment obligations of the City, including without limitation, the timing thereof.

Subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, the City thereby pledges all amounts held in the Revenue Fund and any other amounts held in any fund or account established pursuant to the Trust Agreement other than the Rebate Fund or Liquidity Facility Account or remarketing proceeds to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Trust Agreement and the payments of amounts owing to the Credit Providers as reimbursement for payments made on the Bonds. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery of the Bonds, without any physical delivery thereof or further act.

Notwithstanding the foregoing, the City in its initial capacity as Co-Trustee under the Trust Agreement shall initially hold the Revenue Fund and make payments of principal or redemption price and interest on the Bonds from such Revenue Fund and shall be responsible for notifying the Credit Provides pursuant to the Trust Agreement in the event of any insufficiency of moneys to pay such amounts.

As provided under the Law, the principal of and interest on the Bonds shall be payable from the proceeds of the *ad valorem* taxes levied on taxable property in the City. pursuant to Proposition A. All Laguna Honda Bonds shall be payable pursuant to Proposition A from such *ad* valorem taxes on a parity basis. The City may also transfer available Tobacco Revenues to pay or redeem the Bonds. Notwithstanding any provision to the contrary within the Trust Agreement, the City shall not be obligated to pay the Purchase Price of any Bonds, except from the proceeds of a draw on a Liquidity Facility or pursuant to the express provisions of any Self-Liquidity.

Allocation of Revenues

On each Interest Payment Date and each day on which payment of principal is due on the Bonds (whether at maturity or because of redemption), the Trustee shall transfer from the moneys on deposit in the Revenue Fund, the amounts necessary to pay the following items in the following order of priority:

First: The amounts due as interest on the Bonds on each Interest Payment Date or redemption date. Amounts so designated shall be used first to pay any interest due on the Bonds.

Second: The principal due on the Bonds (whether at maturity or redemption). Amounts so designated shall be used first to pay any principal of the Bonds then due.

Third: The amounts due to reimburse the Credit Providers for any payment made under the Credit Facility used to pay interest and principal of the Bonds.

Funds designated to pay principal due on the Bonds shall be applied to the mandatory sinking fund redemption of the Bonds at the Purchase Price, as set forth in the Trust Agreement or as provided in a Supplemental Trust Agreement.

Any moneys which have been deposited in the Revenue Fund for application to any of the mandatory sinking fund payments shall be applied by the Trustee, if the Trustee is directed to do so in a Request of the City, to the purchase of the applicable Bonds as and when and at such prices (including brokerage and other charges but excluding accrued interest) as the City may in its discretion determine, except that the purchase price (excluding accrued interest) shall not exceed the par value of such Bonds. Any Bonds so purchased with moneys designated for a mandatory sinking fund payment shall be applied, to the extent of the full principal amount thereof, to reduce said mandatory sinking fund payment from such mandatory sinking fund payments as shall be selected by the City. All Bonds purchased pursuant to this paragraph shall be cancelled by the Trustee.

At least 5 Business Days before each Interest Payment Date, the Trustee shall determine the amount, if any, credited or to be credited to the Revenue Fund during the period from the day after the last Interest Payment Date to the next succeeding Interest Payment Date pursuant to the Trust Agreement (investment earnings) or from any other source. The Trustee shall give notice to the City of such amount and the amount due, which notice shall be mailed, telecommunicated or delivered in such a manner that the City will receive such notice by the 5 Business Day before such next succeeding Interest Payment Date. Any telephonic notice shall be supplemented by notice given in accordance with the preceding sentence. Failure by the Trustee to give notice pursuant to this subsection, or the insufficiency of any such notice, shall not affect or diminish the obligations of the City under the Trust Agreement.

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be left on deposit in the Revenue Fund until the next Interest Payment Date or, at the City's direction, transferred to the City. Any amounts on deposit in the Revenue Fund when there are no longer any Bonds Outstanding shall be returned to the City and deposited in the General Fund subject to any conditions set forth in the Tax Certificate.

Investment of Moneys in Funds and Accounts

Except as otherwise provided in the Trust Agreement, all moneys in any of the funds and accounts (other than the Rebate Fund or Liquidity Facility Account or remarketing proceeds) established and held by the Trustee pursuant to the Trust Agreement shall be invested by the Trustee solely in such Permitted Investments as are specified in a Request of the City received by the Trustee at least 2 Business Days before the investment date, which Request of the City shall state that such investment is a Permitted Investment as required by the Trust Agreement, provided, however, that, if the City does not file such a Request with the Trustee, the Trustee shall invest to the extent practicable in investments described in clause (d) of the definition of the term "Permitted Investments" in the Trust Agreement.

All interest, profits and other income received from the investment of moneys within the Project Account or any account therein shall be credited to such fund or account. Except as otherwise provided in written instructions of the City, all interest, profits and other income received from the investment of moneys in any other fund or account established under the Trust Agreement (the City shall not be authorized to transfer interest, profits or other income from the Rebate Fund or Liquidity Facility Account or remarketing proceeds) shall be credited to the Revenue Fund.

Subject to the Trust Agreement and the paragraph below, investments in any and all funds and accounts established pursuant to the Trust Agreement (other than the Rebate Fund or Liquidity Facility Account or remarketing proceeds) may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions therein for transfer to or holding in a particular fund amounts received or held by the Trustee under the Trust Agreement, provided that the Trustee shall at all times account for such investments strictly in accordance with the particular funds to which they are credited and otherwise as provided in the Trust Agreement. The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee or its affiliates may act as sponsor, advisor or depository with regard to any Permitted Investment. The Trustee may sell at the best price obtainable, or present for redemption, any securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such securities is credited, and the Trustee shall not be liable or responsible for any loss resulting from such investment. Any Permitted Investment that is a registrable security shall be registered in the name of the Trustee.

Notwithstanding anything to the contrary in the Trust Agreement, moneys held by the Trustee that are remarketing proceeds or payments made under the Credit Facilities or draws on the Liquidity Facilities shall be held uninvested and uncommingled with other moneys.

Credit Facility Provisions

The Trustee shall hold and maintain each Credit Facility for the benefit of the Bondholders until the Credit Facility terminates in accordance with its terms or as provided below. The Trustee shall, subject to the provisions of the Trust Agreement, diligently enforce all terms, covenants and conditions of each Credit Facility, including payment when due of any claims under each Credit Facility, and will not consent to or agree to or permit any amendment or modification thereof which would materially adversely affect the rights or security of Owners.

The City may terminate a Credit Facility and may substitute a Credit Facility with an Alternate Credit Facility. The City shall give written notice of its intention to terminate a Credit Facility and exercise its option to provide an Alternate Credit Facility to the Trustee, the applicable Remarketing Agent and the Liquidity Provider of the Liquidity Facility for such Series of the Bonds at least forty-five (45) days before the proposed termination date of such Credit Facility and the effective date of such Alternate Credit Facility and the Trustee shall provide notice of such intention pursuant to the Trust Agreement. Further, the City shall provide notice of any expiration, termination, extension or substitution of a Credit Facility to the Rating Agencies. If a Credit Facility is substituted with an Alternate Credit Facility during a Term Mode (and such substitution is not effective on a Purchase Date), Auction Rate or during the Fixed Rate, the City shall provide evidence to the Trustee that such substitution shall not cause the then current ratings on the Bonds to be lowered.

Notwithstanding anything contained therein to the contrary, all provisions hereof regarding consents, approvals, directions, waivers, appointments, requests or other actions by the Credit Providers shall be deemed not to require or permit such consents, approvals, directions, waivers, appointments, requests or other actions and shall be read as if the Credit Providers were not mentioned therein (A) during any period during which there is a payment default under the related Credit Facility, or (B) after the related Credit Facility shall at any time for any reason cease to be valid and binding on the related Credit Provider in the reasonable judgment of the City, or shall be declared to be null and void by final non-appealable judgment of a court of competent jurisdiction; provided, however, that the payment of amounts due to the related Credit Provider pursuant to the terms hereof shall continue in full force and effect. The foregoing shall not affect any other rights of such Credit Provider.

Payment Procedures under Credit Facilities

To the extent payments of principal of or interest on the Bonds are made by a Credit Provider under a Credit Facility, the related Credit Provider shall be fully subrogated to the Bondholders rights under the Trust Agreement to seek payment of amounts owed by the City. The City acknowledges and agrees that, upon payment of a claim under a Credit Facility, the related Credit Provider will be subrogated to the rights of the Bondholders. The City will at any time, and from time to time, at the request of any of the Credit Providers execute any instrument, document or agreement, and take any other action, that such Credit Provider may consider reasonably necessary or desirable to affect these rights of subrogation.

Payment Procedures under the 2005 Credit Facility

In the event that, on the second Business Day, and again on the Business Day, prior to the payment date of a Series of the Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Bonds due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the 2005 Credit Provider or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the 2005 Credit Provider or its designee.

The City shall not enter into any agreement nor shall it consent to or participate in any arrangement pursuant to which Bonds are tendered or purchased for any purpose other than the redemption and cancellation or legal defeasance of such Bonds without the prior written consent of the 2005 Credit Provider.

In addition, if the Trustee has notice that any Owner has been required to disgorge payments of principal or interest on the Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes a voidable preference to such Owner within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the 2005 Credit Provider or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

Pursuant to the Trust Agreement, the Trustee is irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Owners as follows:

If and to the extent there is a deficiency in amounts required to pay interest on the Bonds, the Trustee shall (a) execute and deliver to the financial institution (the "Insurance Trustee") identified under the Credit Facility relating to such Bonds, in form satisfactory to the Insurance Trustee, an instrument appointing the Credit Provider of the Credit Facility for such Bonds as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to such Credit Provider of the claims for interest to which such deficiency relates and which are paid by such Credit Provider, (b) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the related Credit Facility payment from the Insurance Trustee with respect to the claims for interest so assigned, and (c) disburse the same to such respective Owners; and

If and to the extent of a deficiency in amounts required to pay principal of the Bonds, the Trustee shall (a) execute and deliver to the Insurance Trustee in form satisfactory to the Insurance Trustee for the Credit Facility relating to such Bonds an instrument appointing the Credit Provider of the Credit Facility for such Bonds as agent for such Owner in any legal proceeding relating to the payment of such principal and an assignment to such Credit Provider of any of the Bonds surrendered to the Insurance Trustee of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Trustee is received), (b) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the related Credit Facility payment from the Insurance Trustee (with respect to the claims for principal so assigned), and (c) disburse the same to such Owners.

Payments with respect to claims for interest on and principal of Bonds disbursed by the Trustee from proceeds of a Credit Facility shall not be considered to discharge the obligations of the City with respect to such Bonds, and the related Credit Provider shall become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

The 2005 Credit Provider shall at any time, and from time to time, with respect to a payment then due on the Series 2005 Bonds, have the option to deliver amounts to the Trustee for deposit into the Revenue Fund to provide monies with respect to any payment date on the Series 2005 Bonds to the extent that without such provision of funds, a claim would be required to be made on the 2005 Credit Facility. Any such amounts provided by the 2005 Credit Provider shall be reimbursable amounts as due under the Trust Agreement.

Events of Default; Acceleration; Waiver of Default

If one or more of the following events ("Events of Default") shall happen:

(1) if default shall be made in the due and punctual payment of the principal of, or premium (if any) on, any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(2) if default shall be made in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(3) if default shall be made in the due and punctual payment of the Purchase Price of any Bond subject to tender pursuant to the Trust Agreement; or

(4) if default shall be made by the City in the performance or observance of any other of the material covenants, agreements or conditions on its part in the Trust Agreement or in the Bonds contained, and such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City by the Trustee Bank, or to the City and the Trustee Bank by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding,

then and in each and every such case during the continuance of such Event of Default, the Trustee Bank in its discretion and with the consent of the Credit Providers and upon the written request of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding and with the consent of the Credit Providers, may and, at the direction of the Credit Providers, upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Holders of Bonds or the Liquidity Providers under the Law or the Trust Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained therein, or in aid of the execution of any power therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee Bank shall deem most effectual in support of any of its rights or duties under the Trust Agreement.

Notwithstanding any other provision of the Trust Agreement, the Trustee Bank may not declare an event of default or exercise any remedy under the above-referenced (1) through (4) without the written consent of the Credit Providers.

Effect of Delay or Omission to Pursue Remedy

No delay or omission of the Trustee Bank, the City, the Credit Providers, the Liquidity Providers or of any Holder of Bonds to exercise any right or power arising from any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given by the Trust Agreement to the Trustee Bank, the City, the Liquidity Providers, the Credit Providers or to the Holders of Bonds may be exercised from time to time, and as often as shall be deemed expedient. In case the Trustee Bank shall have proceeded to enforce any right under the Trust Agreement, and such proceedings shall have been discontinued or abandoned because of waiver or for any other reason, or shall have been determined adversely to the Trustee Bank, then and in every such case the City, the Liquidity Providers, the Credit Providers and the Trustee Bank, and the Holders of the Bonds, severally and respectively, shall be restored to their former positions and rights under the Trust Agreement in respect to the trust estate; and all remedies, rights and powers of the City, the Liquidity Providers, the Credit Providers, the Trustee Bank and the Holders of the Bonds shall continue as though no such proceedings had been taken.

Power of Trustee to Control Proceedings

In the event that the Trustee Bank, upon the happening of an Event of Default, shall have taken some action, by judicial proceedings or otherwise, pursuant to its duties under the Trust Agreement, whether upon its own discretion with the consent of the Credit Providers or at the direction of the Credit Providers or upon the request of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding with the consent of the Credit Providers, it shall have full power in the exercise of its discretion for the best interests of the Holders with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action upon obtaining the prior written consent of the Credit Providers and it shall have full power in the exercise of its discretion for the best interests of the Holders with respect to such matters as it may be directed by the Credit Providers; provided, however, that the Trustee Bank shall not, unless there no longer continues an Event of Default under the Trust Agreement, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Holders of at least a majority in aggregate principal amount of the Outstanding Bonds under the Trust Agreement opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation; *provided further, however,* that with respect to Bank Bonds, the Liquidity Providers shall act in accordance with the Trust Agreement only with the prior written consent of the Credit Providers.

Limitation on Bondholders' Right to Sue

Subject to the rights of the Credit Providers and the Liquidity Providers to control remedial proceedings under the Trust Agreement, notwithstanding any other provision hereof, no Holder of any Bond issued under the Trust Agreement shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement unless (a) such Holder shall have previously given to the Trustee Bank written notice of the occurrence of an Event of Default under the Trust Agreement; (b) the Holders of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee Bank to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Holders shall have tendered to the Trustee Bank reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee Bank shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee Bank; and (e) with the prior written consent of the Credit Providers.

Such notification, request, tender of indemnity and refusal or omission are declared pursuant to the Trust Agreement, in every case, to be conditions precedent to the exercise by any Holder of any remedy under the Trust Agreement; it being understood and intended that no one or more Holders shall have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner therein provided, and that all proceedings at law or in equity to enforce any provision of the Trust Agreement shall be instituted, had and maintained in the manner therein provided and for the equal benefit of all Holders of the Outstanding Bonds.

The right of any Holder of any Bond to receive payment of the principal of, premium, if any, and interest on such Bond out of Revenues and the funds pledged pursuant to the Trust Agreement, as therein provided, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder, notwithstanding the foregoing provisions of the Trust Agreement.

Credit Provider's Direction of Proceedings

Anything in the Trust Agreement to the contrary notwithstanding, the Credit Providers shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee Bank, and upon indemnifying the Trustee Bank to its reasonable satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Trustee Bank under the Trust Agreement, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Trust Agreement, provided, however, that no consent of the Credit Providers shall be required with respect to any remedy or action taken by the Trustee Bank solely for the purpose of collecting any fees and expenses (including attorneys fees and expenses) due and payable under the Trust Agreement.

The Credit Providers, acting alone, shall have the right to direct all remedies in occurrence of an Event of a Default pursuant to the Trust Agreement. The Credit Providers shall be recognized as the registered owner of each Bond which it insures for the purposes of exercising all rights and privileges available to Holders. For Bonds insured by the Credit Facility, the Credit Providers shall have the right to institute any suit, action, or proceeding at law or in equity under the same terms as a Holder in accordance with applicable provisions of the Trust Agreement.

Notwithstanding any other provision of the Trust Agreement, a Credit Provider shall have the right to give directions or control proceedings under the Trust Agreement only if its Credit Facility is in effect and the Credit Provider is not in default of its obligations under the Credit Facility.

In the event a Credit Provider is in default under the related Credit Facility or the related Credit Facility is not in effect, the Liquidity Provider for such Series of the Bonds is entitled to control proceedings under the Trust Agreement, and in such event, all references to the Credit Provider in the preceding two paragraphs shall be deemed to refer to the Liquidity Provider, provided that such Liquidity Provider is not in default under the related Liquidity Facility.

Modification without Consent of Bondholders

Subject to the conditions and restrictions in the Trust Agreement, the City and the Trustee Bank, from time to time and at any time, may enter into a trust agreement or trust agreements supplemental hereto, which trust agreement or trust agreements thereafter shall form a part hereof, including, without limitation, for one or more of the following purposes; provided that the Credit Providers (subject to the Trust Agreement) shall have consented to such amendment, and the Trustee Bank, the Credit Providers and City shall have received an Opinion of Bond Counsel to the effect that such amendment or modification will not cause interest on the Bonds to be included in the gross income of the Holders thereof for federal income tax purposes and an Opinion of Bond Counsel to the effect that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds:

(1) to add to the covenants and agreements of the City in the Trust Agreement contained, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for the Bonds, or to surrender any right or power therein reserved to or conferred upon the City;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision, contained in the Trust Agreement, or in regard to such matters or questions arising under the Trust Agreement as the City may deem necessary or desirable and not inconsistent with the Trust Agreement;

(3) to modify, amend or supplement the Trust Agreement or any trust agreement supplemental hereto in such manner as to permit the qualification hereof or thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if they so determine, to add to the Trust Agreement or any trust agreement supplemental hereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;

(4) in connection with delivery of an Alternate Liquidity Facility for the purpose of conforming the terms, conditions and covenants of the Trust Agreement so as to provide Bondholders the full benefit of the provisions of such Alternate Liquidity Facility; or

(5) in connection with the issuance of Additional Series of the Bonds for the purpose of conforming the terms, conditions and covenants of the Trust Agreement as necessary or desirable for such an Additional Series of the Bonds.

Any supplemental trust agreement authorized by the provisions of the Trust Agreement may be executed by the City and the Trustee Bank without the consent of the Holders of any of the Bonds, notwithstanding any of the provisions of the Trust Agreement, but the Trustee shall not be obligated to enter into any such supplemental trust agreement which affects the Trustee's own rights, duties or immunities under the Trust Agreement.

The Trustee shall mail an executed copy of any supplemental trust agreement authorized by the Trust Agreement to the Liquidity Providers, the Credit Providers and each Rating Agency promptly after execution by the City and the Trustee Bank.

Modification with Consent of Bondholders or Credit Providers

With the written consent of the Credit Providers (subject to the Trust Agreement), and the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding (the consent of the Holders shall not be necessary under certain circumstances provided below), the City and the Trustee Bank may from time to time, with an Opinion of Bond Counsel also addressed to the Credit Providers to the effect that such amendment or modification will not cause interest on the Bonds to be included in the gross income of the Holders thereof for federal income tax purposes, enter into a trust agreement or trust agreements supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Trust Agreement or of any supplemental trust agreement; provided, however, that no such supplemental trust agreement shall (1) extend the fixed maturity of any Bonds or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof or (2) reduce the aforesaid percentage of Holders of Bonds whose consent is required for the execution of such supplemental trust agreements or extend the time of payment or permit the creation of any lien on the Revenues or the funds pledged therein prior to or on a parity with the lien of the Trust Agreement or deprive the Holders of the Bonds of the lien created by the Trust Agreement upon the Revenues or the funds pledged therein, in each case without the consent of the Holders of all the Bonds then Outstanding. Upon the filing with the Trustee of evidence of the consent of the Bondholders, as aforesaid, the Trustee shall join with the City in the execution of such supplemental trust agreement unless such supplemental trust agreement affects the Trustee's own rights, duties or immunities under the Trust Agreement or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental trust agreement.

Anything in the Trust Agreement to the contrary notwithstanding, so long as the Credit Providers are not in default under the Credit Facilities, consent of the Credit Providers will be sufficient to modify the Trust Agreement pursuant to the Trust Agreement, and consent of the Holders shall not be necessary.

It shall not be necessary for the consent of the Bondholders under the Trust Agreement to approve the particular form of any proposed supplemental trust agreement, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the City and the Trustee Bank of any supplemental trust agreement pursuant to the provisions of the Trust Agreement, the Trustee shall mail a notice, setting forth in general terms the substance of such supplemental trust agreement, to the Bondholders at the addresses shown on the Bond registration books maintained by the Trustee. Any failure of the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental trust agreement.

The Trustee shall mail an executed copy of such supplemental trust agreement to the Credit Providers and Liquidity Providers and each Rating Agency promptly after execution by the City and the Trustee Bank.

Discharge of Trust Agreement

Bonds may be paid by the City in any of the following ways provided that the City also pays or causes to be paid any other sums payable under the Trust Agreement by the City:

(1) by paying or causing to be paid the principal of and premium, if any, and interest on the Outstanding Bonds, as and when the same become due and payable;

(2) while the Bonds are in a Fixed Rate or during an Interest Period during the Term Mode or if the City shall present evidence to the Trustee that such payment shall not cause the then current ratings on the Bonds to be lowered, by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Trust Agreement) to pay or redeem Outstanding Bonds; or

(3) by delivering to the Trustee, for cancellation by it, all Outstanding Bonds.

If the City shall pay all Bonds then Outstanding as provided above and shall also pay or cause to be paid all other sums payable under the Trust Agreement by the City, and any balance remaining in the funds and accounts established under the Trust Agreement shall have been paid to the Liquidity Providers and the Credit Providers to the extent any amounts are owing to the Liquidity Providers or the Credit Providers, then and in that case, at the election of the City (evidenced by a Certificate of the City, filed with the Trustee, signifying the intention of the City to discharge all such indebtedness and the Trust Agreement), which election shall be made on the written request of the City, and notwithstanding that any Bonds shall not have been surrendered for payment, the Trust Agreement and the pledge of Revenues made under the Trust Agreement and all covenants, agreements and other obligations of the City under the Trust Agreement shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in the Trust Agreement. In such event, upon request of the City, the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Trust Agreement (except for any money in the Rebate Fund, which shall be disbursed pursuant to the provisions of the Trust Agreement related thereto) which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption and which are not required for the payment of fees and expenses of the Trustee.

Discharge of Liability on Bonds

Upon the irrevocable deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Trust Agreement) to pay or redeem any Outstanding Bond or Series of Bonds, whether upon or prior to its maturity or the redemption date of such Bonds, (provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Trust Agreement provided or provision satisfactory to the Trustee shall have been made for the giving of such notice), then all liability of the City in respect of such Bonds shall cease, terminate and be completely discharged, except only that thereafter the Holder thereof shall be entitled to payment of the principal of, and premium, if any, and interest on such Bonds by the Trustee, and the Trustee shall remain liable for such payment but only out of the money or securities deposited with the Trustee as aforesaid for its payment, provided further, however, that the provisions of the Trust Agreement shall apply in all events.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Money or Securities with Trustee

Whenever in the Trust Agreement it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the amount necessary to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds established pursuant to the Trust Agreement and shall be:

(1) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds and all unpaid interest thereon to the redemption date, together with the redemption premium, if any; or

(2) (a) noncallable direct obligations of the United States of America (including, without limitation, obligations issued or held in book-entry form on the books of the Department of the Treasury or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America (including without limitation the interest component of Resolution Funding Corporation strips for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form) or (b) securities the interest on which is excludable from gross income for federal tax purposes which have been advance refunded pursuant to the Code for which Moody's and S&P are maintaining a rating within the highest rating category of each such rating service and the principal of and interest on which, in the written opinion of an accountant, when due will provide money sufficient to pay the principal of, and premium, if any, and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal, and premium, if any, and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Trust Agreement provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Trust Agreement or by Request of the City) to apply such money to the payment of such principal, and premium, if any, and interest with respect to such Bonds and provided, further, that the City, the Credit Providers and the Trustee shall have received (1) an Opinion of Bond Counsel to the effect that such deposit shall not cause interest on the Bonds to be included in the gross income of the Holders thereof for federal income tax purposes and (2) a verification report by a firm of certified public accountants or other financial services firm selected by the Trustee verifying that the money or securities so deposited together with earnings thereon will be sufficient to make all payments of principal of, premium, if any, and interest on the Bonds to be discharged to and including the earlier of their respective maturity dates or the date they are to be redeemed.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of San Francisco (the "City") in connection with the issuance of its $120,000,000 aggregate principal amount of City and County of San Francisco General Obligation Bonds, consisting of $40,000,000 aggregate principal amount of General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005B (the "Series 2005B Bonds"), $40,000,000 aggregate principal amount of General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005C (the "Series 2005C Bonds"), and $40,000,000 aggregate principal amount of General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005D (the "Series 2005D Bonds" and, together with the Series 2005B Bonds and the Series 2005C Bonds, collectively, the "Bonds"). The Bonds are issued pursuant to Resolution No. 66-04, adopted by the Board of Supervisors of the City (the "Board") on February 2, 2004, and approved by the Mayor of the City (the "Mayor") on February 12, 2004 (the "Resolution"), and pursuant to a Master Trust Agreement, dated as of April 1, 2005 (as in effect and as supplemented from time to time, the "Trust Agreement"), between the City and Deutsche Bank National Trust Company, as trustee. The Bonds are issued pursuant to the Government Code of the State of California and the Charter of the City. The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the "S.E.C.") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any Bonds or to dispose of ownership of any Bonds; or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent under this Disclosure Certificate, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Holder" shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. A list of the current National Repositories approved by the S.E.C. may be found at the S.E.C. website: http://www.sec.gov/info/municipal/nrmsir.htm.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the S.E.C. As of the date of this Disclosure Certificate, there is no State Repository. The current status should be checked on the S.E.C. website, http://www.sec.gov/info/municipal.shtml.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (which is June 30), commencing with the report for the 2004-05 Fiscal Year (which is due not later than March 27, 2006), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The City shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided*, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

1. determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

2. (if the Dissemination Agent is other than the City), file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following information, as required by the S.E.C.:

(a) the audited general purpose financial statements of the City prepared in accordance with generally accepted accounting principles applicable to governmental entities;

(b) a summary of budgeted general fund revenues and appropriations;

(c) a summary of the assessed valuation of taxable property in the City;

(d) a summary of the *ad valorem* property tax levy and delinquency rate;

(e) a schedule of aggregate annual debt service on tax-supported indebtedness of the City; and

(f) a summary of outstanding and authorized but unissued tax-supported indebtedness of the City.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the S.E.C. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) To the extent applicable and pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Modifications to rights of Bondholders.
4. Optional, contingent or unscheduled bond calls.
5. Defeasances.
6. Rating changes.
7. Adverse tax opinions or events affecting the tax status of the Bonds.
8. Unscheduled draws on debt service reserves reflecting financial difficulties.
9. Unscheduled draws on credit enhancements reflecting financial difficulties.
10. Substitution of credit or liquidity providers or their failure to perform.
11. Release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with each National Repository or with the Municipal Securities Rulemaking Board and, in either case, the State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in Sections 3(a)(4) and 3(a)(5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders and Beneficial Owners of affected Bonds pursuant to the Resolution.

SECTION 6. Use of Central Post Office. The City may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any agent that is responsible for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the SEC or SEC staff (a "Central Post Office"). For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the Central Post Office has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the Central Post Office to transmit information to the National Repositories and the State Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repositories.

SECTION 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as that for giving notice of the occurrence of a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may, at any time or from time to time, amend or waive this Disclosure Certificate or any provision of this Disclosure Certificate; provided, however, that if the Bonds become subject to the requirements of the Rule, the City will amend this Disclosure Certificate, including without limitation, this Section 9, to so comply with the Rule.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

Date: May 26, 2005

CITY AND COUNTY OF SAN FRANCISCO

By____

Edward M. Harrington
Controller of the City and
County of San Francisco

EXHIBIT A

CONTINUING DISCLOSURE CERTIFICATE

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of City: CITY AND COUNTY OF SAN FRANCISCO

Name of Bond Issue: CITY AND COUNTY OF SAN FRANCISCO, GENERAL OBLIGATION BONDS, CONSISTING OF GENERAL OBLIGATION BONDS (LAGUNA HONDA HOSPITAL, 1999) SERIES 2005B, GENERAL OBLIGATION BONDS (LAGUNA HONDA HOSPITAL, 1999) SERIES 2005C AND GENERAL OBLIGATION BONDS (LAGUNA HONDA HOSPITAL, 1999) SERIES 2005D

Date of Issuance: May 26, 2005

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated May 26, 2005. The City anticipates that the Annual Report will be filed by _____________.

Dated:_______________

CITY AND COUNTY OF SAN FRANCISCO

By:_____________________________________

Title _____________________________________

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

General. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

Neither the City nor the Underwriters give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the City nor the Underwriters are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

DTC. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity and series of the Bonds, each in the aggregate principal amount of such maturity and series, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC", "GSCC", "MBSCC", and "EMCC", also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Book-Entry Only System. Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Discontinuance of Book-Entry Only System. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the County or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

In the event that the book-entry system is discontinued as described above, the requirements of the Trust Agreement will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and neither the City or the Trustee take any responsibility for the accuracy thereof.

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APPENDIX G

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

[Closing Date]

Board of Supervisors
City and County of San Francisco
1 Dr. Carlton Goodlett Place
San Francisco, California 94102-4682

Re: City and County of San Francisco General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005B, Series 2005C and Series 2005D

Ladies and Gentlemen:

We have acted as co-bond counsel to the City and County of San Francisco (the "City") in connection with the issuance of its $40,000,000 City and County of San Francisco General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005B, $40,000,000 City and County of San Francisco General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005C and $40,000,000 City and County of San Francisco General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005D (collectively, the "Bonds"), pursuant to the authority granted by the Constitution of the State of California and the Charter of the City.

In our capacity as co-bond counsel to the City, we have reviewed copies, certified to us as being true and complete copies, of the record of the proceedings of the City for authorization and issuance of the Bonds. We have also examined such certificates of public officials and officers of the City and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Mater Trust Agreement, dated as of May 1, 2005, by and between the City and Deutsche Bank National Trust Company (the "Trust Agreement").

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the documents, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for Federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds and the Trust Agreement are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. Such proceedings show lawful authority for the issuance and sale of the Bonds pursuant to the Constitution of the State of California and the Charter of the City, including a ballot measure approved by not less than a two-thirds vote of the qualified electors of the City voting at the November 2, 1999 election and Ordinance No. 24-04 adopted by the Board of Supervisors of the City on February 10, 2004, and approved by the Mayor of the City on February 19, 2004 and Resolution No. 66-04 adopted by the Board on February 3, 2004, and approved by the Mayor on February 12, 2004.

2. The Bonds constitute valid and binding general obligations of the City, and are secured by a covenant by the City to levy *ad valorem* taxes upon all property subject to taxation by the City, which taxes are unlimited as to rate or amount (except for certain personal property which is taxable at limited rates), for the payment of the principal of the Bonds and the interest thereon.

3. Under existing statutes and court decisions, interest on the Bonds is not included in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, interest on the Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations by the Code. In rendering the opinion in this paragraph, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Tax Certificate delivered on the date hereof by the City with respect to the use of proceeds of the Bonds and the investment of certain funds, and other matters affecting the non-inclusion of interest on the Bonds in gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the City with procedures and covenants set forth in the Tax Certificate and with the tax covenants set forth in the Trust Agreement as to such matters. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Bonds to be included in gross income for Federal income tax purposes, retroactive to the date of issuance of the Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

4. Under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs 3 and 4 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under State and local tax law.

With respect to matters expressed in paragraphs 1 and 2 above, we have relied in part upon an opinion from the City Attorney.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Respectfully submitted,

Respectfully submitted,

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APPENDIX H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

____
President

Attest: ______________________________
Assistant Secretary

STD-R-CA-6
4/95

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